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# Japan Report

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11 February 1985

## JAPAN REPORT

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POLITICAL AND SOCIOLOGICAL

POST NAKASONE REELECTION ANALYZED

Tokyo JIHYO in Japanese Dec 1984 pp 134-137

[Article by Kotaro Tawara, political commentator]

[Excerpts] The second Nakasone Cabinet has come into being amid a host of speculations. We shall examine what this cabinet reorganization has meant.

Nakasone, who heads the numerically second weakest faction in the LDP has accomplished what no other prime minister since Sato has been able to do-- maintain a 4-year administration. He did this against the tide of severe criticism not only from the opposition parties but from the leftwing of the journalism media as well. The only thing different in recent times has been the strong counter punches from the rightwing journalists. However, in spite of this, criticism against Nakasone has been strong. Komoto's economic policies, Miyazawa's doubling asset theories and the Nikaido support movements have been portrayed as reactions directed against Nakasone's policies. This is the atmosphere in which the cabinet reorganization took place and resulted in what we have today.

The question is, how is public opinion viewing this reorganization. Referring to opinion surveys taken by ASAHI Newspapers and Fuji TV and starting from the conclusions we find there is extremely strong support for the Nakasone Cabinet. Both ASAHI, which is viewed as leftist and Fuji TV which is more or less rightist show high rates of support. Since they are the same opinion polls, both should naturally give the same results. However, such was not necessarily the case in the past. Both of these surveys gave Nakasone the highest support ratings he has had in the past 2 years. ASAHI showed a support rating of 45 percent and Fuji TV gave him 55 percent. The not-so-positive nonsupporter and the positive nonsupport, in both surveys, were only 12.6 percent and 11.5 percent respectively.

Because this cabinet reorganization was undertaken against the background of the very conditions mentioned earlier and touted by much of the journalistic world and, because so many old faces are still holding down important posts, the new cabinet has relatively little new blood and does not include other well known faces. In this context no image upgrading has been accomplished.

Despite all of this, for ASAHI's polls to show gains in support levels is a phenomenon that can only be termed unexpected. Support percentages for cabinets generally follow the pattern of 30 percent levels at the beginning, a drop to below the 30 percent level after a year, in the 20 percent range during the 2nd year and down to below 15 percent at the end of the 2nd year.

#### The Official Stance Theory loses power

The results of this opinion poll seem to have gone in favor of Nakasone because of the attacks mounted against him by leftwing journalism. One of the questions in the Fuji TV survey and not in the ASAHI poll was the question of influence exerted or not exerted on the Nakasone cabinet by former Prime Minister Tanaka. Those who replied that they thought the influence had strengthened rose to 51.8 percent while those who believed the influence had decreased was only 21.2 percent. This indicates that while the public believes Tanaka's influence is greater, it does not necessarily affect their support for the Nakasone Cabinet.

In a sense this indicates a determination on the part of the public not to be swayed by the same old rhetoric of official stance and their acceptance of the realities with which they are faced. For a strong Tanaka faction to wield influence is commonsense and despite that influence, the public has determined, Nakasone has shown his own mettle in the field of foreign policy.

We had believed all along that the views of the leftwing journalism existed as an official stance and that they had, in fact, already lost their influence over the public. This recent poll proves our point and is very significant.

Looking at the characteristics of Japanese journalism that have become obvious in recent years there has been an erosion of ASAHI, MAINICHI and NHK followers to other media.

In other words, it is passe to keep forging ahead with a certain line, and, those that do, find their readers leaving them as this public opinion poll has clearly shown. The public criticism against slanted mass media is now solidly established and they are looking at the information available to them from a variety of angles.

#### The Growing Power of Public Consciousness

This is appropo in discussing Kiichi Miyazawa. He recently wrote a book entitled "A Challenge for a Beautiful Japan" which is a rendition of his doubling net worth thesis plus his political vision. The problem is in the way he has presented it in the book. The book is generally an affirmation of postwar democracy, which is quite all right. However, in this era when leftwing ideas are losing their influence even among Socialists, Communists and Komeito followers, the NHK commentary format and ASAHI's editorial style presentations are part and parcel of Miyazawa's style. If he does not change this style he cannot hope to take over the leadership of the LDP much less

the conservative Japanese movement. His old perspectives have poked their heads out in his policy as an aspect doubling theory.

Doubling, is a word associated with volume. When former Prime Minister Ikeda used the term, in his day, and with Japan still in a developing stage, it was appropriate. We are now an economic giant and we are thinking in terms of low growth. Ohira realized this and changed his thinking. The thinking toward smaller government, Japanese style welfare, overall security society

and pastoral city concepts were the result. The heir to the Kochi Kai has retrogressed and this is his big policy mistake. He should have studied more seriously about the changes that have taken place in the public awareness.

One other aspect of the Nikaido support movement... Nikaido has long held that Komeito and DSP had to be steered toward the LDP and that a coalition government needed to be put in place or else politics would be ineffective. In other words "There is a need to have them sweat along with us to melt away the bottlenecks." Everyone is aware of this thesis of Nikaido and his support movement was born out of this knowledge. When the Tanaka problems come up in the Diet they become the major obstacles in carrying out Diet deliberations. By forming a coalition government with the Komeito and the Minshato and although it may be a bit forceful, the Tanaka problems could be handled.

We can understand that Suzuki, the former prime minister, supported Nikaido in this action because a Nikaido government would be easier to later link into a Miyazawa government than would a Nakasone second term. We cannot understand why Takeo Fukuda and Komoto agreed to this scenario. If they thought Nikaido would go against Tanaka's wishes and stand for election and that such a candidacy would split the faction, then there is nothing more to say than that they had poor insight.

The Komeito and Minshata joining in the support of Nikaido was pure and simply a desire to get cabinet posts as Tagawa did. No one will believe these efforts to stop Nakasone were designed to stop Japan from drifting any further to the right. Has this Nikaido episode left any scars in the Tanaka faction? Questionable. Nikaido is still the chairman of the Tanaka faction and is still the vice president of the party. With Shin Kanamaru's appointment as secretary general of the party and no loss of cabinet seats Nikaido stands now to be the dark horse heir to Nakasone's throne if something should happen to him. If some strong and widely supported rival should be on the horizon, Nakasone would not summarily leave the Tanaka faction. Suzuki aside, the fact that Fukuda, Komoto and all of the others that jumped on the support Nikaido bandwagon did so as one means of dealing Kakuei Tanaka a blow. However, the only one who gained from the exercise was Tanaka himself. If the opposition is as clumsy as this, it does not appear that Tanaka's power will wane in the foreseeable future.

9980

CSO: 4105/070

POLITICAL AND SOCIOLOGICAL

SAKATA ELECTED NEW LOWER HOUSE SPEAKER

OW241147 Tokyo KYODO in English 0814 GMT 24 Jan 85

[Text] Tokyo, 24 Jan (KYODO)--The House of Representatives unanimously elected Michita Sakata, a Liberal-Democrat, as speaker Thursday replacing Kenji Fukunaga, also a Liberal-Democrat who resigned.

Sakata, 68, garnered all 447 votes cast at the day's plenary session.

After the election, Sakata told the session he would work for just and smooth management of the lower house.

Prime Minister Yasuhiro Nakasone will deliver a major policy speech in the Diet Friday when it resumes business after a new year recess.

Sakata is a veteran Liberal-Democratic Party member of the lower house and has no factional affiliation. He previously served as health and welfare minister, education minister, chief of the defense agency and justice minister.

CSO: 4100/165

MILITARY

JAPAN, U.S. END JOINT MILITARY OPERATIONS STUDY

OW261113 Tokyo KYODO in English 1056 GMT 26 Dec 84

[Text] Tokyo, 26 Dec, KYODO--Japan and the United States, in a step to cement further their bilateral alliance, Wednesday concluded a study on joint military operations in the event of an invasion of Japan.

Lt Gen Keitaro Watanabe, joint staff council chief, and Lt Gen Edward L. Tixier, commander of the U.S. forces in Japan, signed documents marking the completion of the joint study.

Speaking to reporters, Gen Watanabe called the conclusion of the study "epochal," saying it has laid the "foundation" for Japan-U.S. joint operations in the future.

What the two countries plan to do under the joint study was not announced, however, because they are top military secrets, according to officers of Japan's Defense Agency.

The two generals signed the documents in a closed meeting.

In 1978, Japan and the United States agreed on the guidelines for Japan-U.S. defense cooperation to start the study on joint operations under which Japan's Self-Defense Forces (SDF) will protect the country's territory and its surrounding waters and airspace, while U.S. forces are supposed to attack enemy bases in case of an invasion of Japan.

Though not made public, the joint military operations probably include the establishment of a coordination organization, communication systems, and replenishment of supplies for U.S. troops coming from the United States, Defense Agency sources said.

The study was completed at a time when there is a growing number of Japan-U.S. joint military exercises.

Japan's Joint Staff Council and the U.S. forces in Japan plan to conduct their first joint command post exercise next year.

CSO: 4100/144

MILITARY

GOVERNMENT APPROVES FISCAL 1985 DEFENSE BILL

OW291031 Tokyo KYODO in English 0927 GMT 29 Dec 84

[Text] Tokyo, 29 Dec, KYODO--The government Saturday approved a 3,137 billion yen (\$12.55 billion) defense bill for fiscal 1985 that has already earned praise from Washington but triggered opposition attacks at home.

The defense outlay, up 6.9 percent from the current fiscal year, was contained in a government budget bill adopted by the cabinet of Prime Minister Yasuhiro Nakasone at a special session Saturday afternoon.

As the government in Tokyo finalized the defense budget Friday night, U.S. Defense Department sources in Washington said they welcomed the 6.9 percent hike, which compares with a 6.5 percent increase in the last budget.

However, major opposition parties in Japan criticized the defense build-up, which comes amid a general budget squeeze.

Nakasone told reporters Saturday that the government had not bowed to pressure from the United States in approving the hike.

"Defense spending is something we decide for ourselves. It is for the defense of Japan that we are pursuing our defense policy," he said.

The defense bill, the most controversial item in the fiscal 1985 budget, was adopted after Nakasone intervened late Friday night to break a deadlock between a tight-fisted Finance Ministry and the Defense Agency.

The defense budget once again came perilously close to the 1 percent of the gross national product limit the government has observed since 1976.

Budget officials at the Finance Ministry said the 3,137 billion yen budget represents 0.997 percent of fiscal 1985's projected GNP, just 8.9 billion yen (\$35.6 million) short of the 1 percent barrier.

Both Nakasone and the defense caucus within the ruling Liberal-Democratic Party are known to favor a review of the 1976 guideline.

In what analysts called a government slight-of-hand to keep spending below the "1 percent" ceiling, the new defense budget does not include deferred payments for hardware to be ordered during the new fiscal year.

Under this buy-now-pay-later formula, the Defense Agency will be allowed to sign contracts for 1,159.9 billion yen (\$4.64 billion) worth of hardware for fiscal 1985, including the first batch of a new generation of U.S.-designed "patriot" ground-to-air missiles.

The maritime self-defense forces were given a 733.3 billion yen (\$2.93 billion) budget, up from 706 billion yen (\$2.82 billion), this year, including authorization to order 10 PEC anti-submarine planes, a submarine, two minesweepers and three destroyers.

The new defense bill also assigns 322.4 billion yen (\$1.29 billion) to the defense facilities administration agency, including 80.7 billion yen (\$322.8 million) for U.S. military forces stationed in Japan.

CSO: 4100/144

MILITARY

BRIEFS

JAPAN'S DEFENSE BUDGET INCREASE--Tokyo, 30 Dec, KYODO--In a reaction to Japan's defense budget increase by 6.9 percent next year, radio Moscow Saturday night said the increase shows Prime Minister Yasuhiro Nakasone's "regime" has taken an aggressive step forward to expand Japan's military power. The radio, monitored here, attacked the Japanese leaders for the decision, saying they play the role of spreading the United States' adventurist strategy in the Far East. Nakasone's government responded positively to the U.S. demand, the radio charged. [Text] [Tokyo KYODO in English 0611 GMT 30 Dec 84 OW]

CSO: 4100/144

ECONOMIC

NAKASONE URGES NEW MARKET OPENING POLICY

OW220401 Tokyo KYODO in English 0334 GMT 22 Jan 85

[Text] Tokyo, 22 Jan (KYODO)--Prime Minister Yasuhiro Nakasone said Tuesday the government should work out a new market opening policy "with determination," suggesting it must be ready before U.S. Congressional discussions on Japan's huge trade surplus with the United States scheduled for February and March.

"February and March is a crucial period," Nakasone said at a cabinet meeting.

In a meeting with U.S. President Ronald Reagan in Los Angeles earlier this month, Nakasone said the Tokyo government will draw up new market opening measures by the end of March.

Japan marked a record 33 billion trade surplus with the United States in 1984.

A U.S. governmental delegation is expected to come to Tokyo later this month for talks with Japanese officials on the trade problem. "We should work out open market measures with determination, not step by step, but stride and stride," Nakasone was quoted as telling the cabinet meeting.

Nakasone reportedly noted a growing U.S. Congressional voice for protectionism because of the expanding export-import gap between the two countries.

He also said the U.S. Congress is scheduled to pen public hearing on the Japan-U.S. trade in February and March.

Foreign Minister Shintaro Abe, who was also present at the meeting, said Japan should not "drag on" in discussing measures to open the market wider for foreign products.

"We have agreed with the United States to work out a market opening policy by the end of March," Abe was quoted as telling the meeting.

CSO: 4100/159

ECONOMIC

JAPAN, U.S. TO HOLD TRADE TALKS 29-30 JAN

OW181201 Tokyo KYODO in English 1147 GMT 18 Jan 85

[Text] Tokyo, 18 Jan (KYODO)--Japan and the United States will hold a sub-cabinet-level meeting in Tokyo January 29-30 to discuss bilateral trade issues, a senior Foreign Ministry official said Friday.

The official, who declined to be indentified, said the meeting will take place ahead of working-level talks scheduled for March, adding that this suggests strong U.S. intention to seek early solution to trade problems.

Such U.S. desire has been conveyed to Foreign Minister Shintaro Abe by Secretary of State George Shultz, he said.

The U.S. delegation to the Tokyo meeting will be led by Under Secretary of State Allen Wallis. Leading the Japanese team will be Deputy Foreign Minister Reishi Teshima.

The meeting is expected to focus on U.S. requests for easier access to Japan's communication equipment, computer and software, lumber, and medical equipment and pharmaceutical markets.

Prime Minister Yasuhiro Nakasone and President Ronald Reagan agreed at their meeting in Los Angeles early in January to discuss market-opening measures in these fields.

But the Japanese side may fail to respond to the U.S. requests at the meeting in view of wide difference of views among Japanese Government departments concerned, informed sources said.

Tokyo plans to map out a new set of market-opening measures in March following the latest package unveiled last month.

CSO: 4100/159

ECONOMIC

FOREIGN MINISTRY SAYS U.S. SEEKS BIG TARIFF CUTS

OWE90651 Tokyo KYODO in English 0641 GMT 19 Jan 85

[Text] Tokyo, 19 Jan (KYODO)--The United States plans to call for Japan's massive tariff cuts and other market-opening measures during a two-day meeting in Tokyo later this month, Foreign Ministry officials said Saturday.

Specifically, they said, the United States is calling on Japan to trim tariffs on "over 140 items," including lumber, paper and aluminum products, wine and chocolates.

In addition, Washington is demanding a greater access to the Japanese telecommunications market by competitive American companies, the official added.

The Reagan administration made the same demand concerning the lucrative communications market during talks between U.S. President Ronald Reagan and Prime Minister Yasuhiro Nakasone in Los Angeles on January 2.

U.S. Vice President George Bush told Liberal-Democratic Party Vice President Susumu Nikaido in Washington Thursday the United States expects Japan to purchase more of American communications equipment, electronics goods, medical equipment and medical supplies.

During the forthcoming Tokyo meeting January 29-30, the Foreign Ministry officials predicted, the United States may request membership in the industrial structure council, an advisory body to the minister of international trade and industry, and a certification inspecting organ for telecommunications equipment and terminals.

Following the sub-cabinet level talks on overall Japan-U.S. trade matters, the two countries will hold high working-level negotiations on foreign access to the Japanese telecommunications market in Tokyo January 31 and February 1.

Foreign Ministry sources said the negotiations are being held at the strong request of U.S. Secretary of State George Shultz, made in his letter to Foreign Minister Shintaro Abe, in which he proposed the holding of the January 29-30 sub-cabinet level talks.

The U.S. Government will send a delegation, including Deputy Trade Representative Michael B. Smith and Under Secretary of Commerce for International Trade Lionel Olmer, to the working-level negotiations. Japanese delegates will include Deputy Foreign Minister Reishi Teshima and Kazuo Wakasugi, vice minister of international trade and industry for international affairs.

U.S. Under Secretary of State Allen Wallis and other American negotiators are also expected to raise the subject of American lawyers' access to the Japanese market, at the January 29-30 meeting, the officials hinted.

As in the past, the U.S. officials will also urge Japan to expand imports of American coal and help develop Alaskan natural gas for exports to Japan.

The Japanese delegation to the January 29-30 meeting will be led by Deputy Foreign Minister Teshima.

The meeting and working-level talks in March will lay the groundwork for a new package of Japan's market-opening measures, to be released this spring.

CSO: 4100/519

ECONOMIC

NIKAIDO BRIEFS NAKASONE ON RECENT U.S. VISIT

OW231223 Tokyo KYODO in English 1102 GMT 23 Jan 85

[Text] Tokyo, 23 Jan (KYODO)--Japanese and American legislators may hold their first meeting around August to discuss bilateral trade problems, ruling Liberal-Democratic Party Vice President Susumu Nikaido said Wednesday.

Nikaido briefed Prime Minister Yasuhiro Nakasone on his just completed trip to Washington and reported to him on the proposed Japan-U.S. legislators' session.

Details of the planned session are not immediately known.

Nikaido was quoted as telling the prime minister that the question of trade protectionism would surge into the fore if legislators of the two nations neglect dialogue.

At the same time, he reportedly said that consultations between officials of the two nations would take too much time.

He, thus, emphasized the need to have an interchange between lawmakers of Japan and the United States.

Nikaido was in Washington from 16 to January and met with Vice President George Bush and other prominent Americans.

CSO: 4100/165

ECONOMIC

NTT PROCUREMENT SEEN AS TOPIC IN TALKS WITH U.S.

OW231221 Tokyo KYODO in English 1045 GMT 23 Jan 85

[Text] Tokyo, 23 Jan (KYODO)--Procurement by the Nippon Telegraph and Telephone Public Corp (NTT) after its privatization in April will be the main topic in working-level Japan-United States talks starting Friday in Tokyo, official sources said Wednesday.

The sources said the U.S. Government apparently feared that the existing Japan-U.S. agreement on the procurement may be invalidated after NTT goes private 1 April. The American delegation will probably ask the Japanese Government to keep the procurement agreement in force even after the reorganization of NTT, they said.

Japan's Ministry of Posts and Telecommunications and NTT are in agreement that the procurement agreement could remain in force even after the privatization of NTT and that a privatized NTT should also buy foreign telecommunications equipment if it is of good quality and reasonable prices, the sources said.

They said the problem is in what form the Japanese Government would give such assurances.

The sources said the American side may further ask Japan for stepped-up NTT procurement, particularly such main equipment and materials as telephone switching systems and optical fibers.

The coming consultations precede subcabinet-level Japan-U.S. talks at the end of this month on another market-opening package.

Under the existing Japan-U.S. agreement, the Japanese Government has followed a policy of non-discrimination between Japanese and foreign enterprises in the procurement of telecommunications equipment and materials.

NTT bought 34.8 billion yen (137 million dollars) worth of foreign telecommunications equipment and materials in fiscal 1983, of which 31.2 billion yen (123 million dollars) worth was purchased from the United States.

NTT intends to buy more in fiscal 1984 ending 31 March.

CSO: 4100/165

ECONOMIC

NTT, IBM OPEN WAY FOR COMPUTER DIALOGUE

OW280837 Tokyo KYODO in English 0709 GMT 28 Dec 84

[Text] Tokyo, 28 Dec, KYODO--The Nippon Telegraph and Telephone Public Corp (NTT) and America's International Business Machines Corp (IBM) have jointly opened the way for "dialogue" between Japanese and IBM computers, it was revealed Friday.

An NTT spokesman said NTT and IBM researchers have jointly developed protocols for connecting their computer communications networks via the OSI (open systems interconnection) system proposed by the international standardization organization (ISO) after a year's joint effort.

The spokesman said the researchers have developed a protocol for converting IBM's SNA (systems network architecture) into the OSI system, and a protocol for converting NTT's DCNA (data communications network architecture) into the OSI system.

NTT and IBM would write their own software by themselves to link their networks on the basis of the protocols, the NTT spokesman said.

An IBM Japan, Ltd spokesman said IBM and NTT have just completed 1-year joint research on the matter. The results of their research will be announced at an information processing science meeting next March, he said. The spokesman refused to give further details.

SNA is a network system for connecting IBM computers and DCNA for Japanese computers, such as the products of Jijitsu, Ltd, Hitachi, Ltd, NEC Corp and other manufacturers. Network is, in computer parlance, a group of communicating devices, usually terminals and one more computers, connected via telephone lines to move information from place to place. Protocol is the rules and formats for conducting communications on a large network.. Architecture is a designing idea.

CSO: 4100/140

ECONOMIC

ISHIHARA SEES NO SURGE IN CAR EXPORTS TO U.S.

OW241131 Tokyo KYODO in English 1043 GMT 24 Jan 85

[Text] Tokyo, 24 Jan (KYODO)--Takashi Ishihara, president of the Japan Automobile Manufacturers Association, said Thursday that an end to the current shipment restraint agreement would not result in any significant increase in Japanese car exports to the United States.

"Selling cars requires good dealers, salespersons and after-sale services. With their present marketing ability, Japanese car makers cannot drastically increase their sales in the United States," Ishihara said.

In Washington Wednesday, U.S. Trade Representative William Brock said he does not expect any "overwhelming surge" in Japanese car shipments if the auto agreement is terminated at the end of this March.

Asked to comment on a WASHINGTON POST report quoting Japanese ruling party officials as telling Brock that Japanese automakers could ship no more than 2.5 million cars to the U.S. a year because of their limited production capacity, Ishihara said, "I don't see why they mentioned such a figure.

"The Japanese industry has a capacity to increase the annual output by some 650,000 cars, but I don't think exports (to the U.S.) will increase by that number."

Ishihara refused to estimate how much exports will increase once the self-restraint is terminated.

The car agreement, currently in its fourth year, limits Japanese shipments to 1.85 million units a year.

CSO: 4100/165

ECONOMIC

GOVERNMENT APPROVES FISCAL 1985 ECONOMIC PLAN

OW250121 Tokyo KYODO in English 0102 GMT 25 Jan 85

[Text] Tokyo, 25 Jan (KYODO)--The government decided formally at a cabinet meeting Friday to accept an economic outlook for fiscal 1985 projecting real economic growth of 4.6 percent over the current fiscal year.

The nominal growth rate before inflation adjustment is estimated at 6.1 percent.

Reflecting a very austere national budget, government spending is expected to rise 1.6 percent in nominal terms over fiscal 1984 and merely 0.5 percent after inflation adjustment, thus giving the private sector a major burden in achieving the growth target.

The government expects public spending to contribute only 0.1 percent to fulfilling the 4.6 percent real growth rate, while the remainder is expected from personal expenditures and business investment and other private domestic demand.

Employees' income, an important barometer in forecasting personal spending, is projected to rise 6.8 percent in the next fiscal year, with its ratio to the national product expected to be 71.2 percent, up from 70.8 percent in the current year.

But the government's fixed capital formation in which public works spending occupies a lion's share is estimated to fall 0.4 percent in nominal terms--the third consecutive annual decline.

CSO: 4100/165

ECONOMIC

NAKASONE MEETS TRADE, ECONOMIC MINISTERS

OW250351 Tokyo KYODO in English 0307 GMT 25 Jan 85

[Text] Tokyo, 25 Jan (KYODO)--Prime Minister Yasuhiro Nakasone, meeting separately with three state ministers responsible for trade and economy after Friday's cabinet meeting, instructed they should be well prepared for an upcoming series of Japan-U.S. high-level trade talks to be held here early next week.

In meeting with Toshio Komoto, state minister in charge of external economic affairs, Economic Planning Agency Director Ippei Kaneko and International Trade and Industry Minister Keijiro Murata, Nakasone said consultations among vice ministers of ministries and agencies concerned should prepare for the two-day meeting which will start next Monday to discuss Japan's market opening measures.

Nakasone also instructed Murata to be well prepared for a quadrilateral trade ministers' meeting to be held for three days starting 9 February in Kyoto among Japan, the U.S., Canada and the European Community (EC), saying he himself is planning to meet separately with their representatives.

CSO: 4100/165

ECONOMIC

PLANNING AGENCY REPORTS ON ECONOMIC TRENDS

Japan's Economy Shifting

OW271125 Tokyo KYODO in English 1012 GMT 27 Dec 84

[Text] Tokyo, 27 Dec, KYODO--Japan's economy is most likely shifting to a pattern of steady growth next year backed by strong domestic demand, the economic planning agency said in a report Thursday.

The annual report, reviewing the 1984 Japanese economy and studying its future course, said the U.S. economy is also likely to successfully make a "soft landing" toward slower but steady growth next year without a major retreat, a development indispensable to the steady growth of Japan's economy.

The report said Japan's capital investment, centering on high technology-related fields, will continue to rise strongly next year even if Japanese exports to the U.S. begin to fall on a slowdown of the U.S. economy.

Investment opportunities in high technology in Japan will remain strong next year, backed by strong investment minds among Japanese businesses, the report said.

The country's consumer spending, the other pillar of domestic demand, is expected to go upward on brighter consumer psychology toward consumption, it said.

Japan's capital spending in the current fiscal year ending next March, the second year of economic expansion, is expected to score a real annual growth rate of 10.1 percent, led by high technology, electric machinery and other manufacturing industries, the report said.

Especially, investment drives are fairly strong in microelectronics-related fields, it said.

Japan should try further to increase confidence of the business community in the country's future economy by actively tackling various mid- and long-term problems and seeking to expand private capital investment and consumer spending, according to the report.

### Slower Economic Growth Forecast

OW201241 Tokyo KYODO in English 1136 GMT 20 Dec 84

[Text] Tokyo, 20 Dec, KYODO--Japan's real economic growth will slow to 4.6 percent in fiscal 1985 from this year's estimated 5.3 percent, due mainly to slower exports caused by U.S. business deceleration, economic planning agency officials said Thursday.

The officials said that details of the agency's economic outlook for the new fiscal year, beginning next 1 April, won't be made public until the document is endorsed at a cabinet meeting Saturday or next Monday.

However, the EPA's scenario seemed reasonably clear: the economy would go on expanding, spurred by steady corporate investment and recovering personal spending, but the growth would be slower as exports turn dull, hit by weaker demand in the U.S., Japan's biggest single market.

The EPA officials said that domestic demand would account for 4.1 percent of the projected growth, with the remaining 0.5 percent filled by external demand.

For this fiscal year, the EPA has forecast a 4 percent share for domestic demand and a 1.3 percent share for exports.

The EPA officials said that corporate investment will grow by some 8.5 percent, slightly down from 9-odd percent this year, and personal spending will increase 4 percent, up from just over 3 percent.

The officials also said that the EPA projection put price inflation next fiscal year at 1.1 percent at wholesale level and 2.8 percent at consumer level, up from an estimated 0.3 percent and 2.4 percent, respectively, this year.

The trade surplus, the main cause of friction with Japan's trading partners, will increase to \$45 billion from this year's \$44 billion, with the current account surplus expected to level off at \$34 billion, they said.

Analysts called the EPA's current account surplus estimate too conservative, saying that the figure is connotative of political consideration.

Private research institutes and banks earlier predicted much bigger current account surpluses to the tune of \$40-45 billion.

By contrast, the EPA's 4.6 percent growth estimate is more bullish than figures given so far by independent institutes, which range from just under 4 percent to 4.3 percent.

One of few exceptions has been the Research Institute of National Economy, which forecast a real growth rate of 6 percent.

## 7-Year Economic Plan Reviewed

OW201331 Tokyo KYODO in English 1023 GMT 20 Dec 84

[Text] Tokyo, 20 Dec, KYODO--An advisory body Thursday reported to Prime Minister Yasuhiro Nakasone on its first review of the 7-year economic plan compiled in August last year, saying the country should maintain its basic policies to sustain a stabilized economic growth without inflation in the 1980's.

The review report, entitled "The Outlook and Guidelines for the 1980's," said the average target real annual economic growth rate of 4 percent for the fiscal 1983-1990 period and other basic target figures remain unchanged.

Economic Planning Agency Director General Ippei Kaneko will present the report, drawn up by the Economic Council, to a cabinet meeting Friday morning, EPA officials said.

It stressed the country should prepare a new economic and social framework to meet rapid developments of technological innovation and highly advanced information systems.

The country should further proceed with making administrative and fiscal reforms, including reexamination of the tax system and the ratio between direct and indirect taxes to achieve fairness in tax burdens, the report said.

The report also said that the nation should quickly take various deregulation measures on governmental restrictions to promote vitality of private sector and achieve creative technological development.

The government should help promote basic technological studies to propel development of electronics, biotechnology, new materials and other highly advanced technologies, the report said.

The country should also prepare surrounding conditions to meet technological advances in information and communication fields to realize a highly advanced information society, it said.

The country should review laws and systems and other conditions, including protection of privacy and preservation of computer software rights, for that purpose, the paper said.

It said that Japan should cooperate with the U.S. and European community countries to reconstruct global economic order and vitalize the world economy by actively persuading developing countries to agree to early start of a new round of multilateral trade talks.

The paper also said Japan should try to reduce the current account surplus in international balance of payments by sustaining economic growth centered on domestic demand, increasing imports and further opening of its market.

The paper suggested that Japan should encourage direct foreign investment in the country as well as its own direct overseas investment and actively carry out industrial cooperation and technology transfers and expand governmental overseas development aid.

It said the country should promote further liberalization of financial market and internationalization of the yen and aim to develop Tokyo into an international monetary center.

Japan should also promote people-to-people exchanges with other countries and help train skilled workers for developing nations.

#### Optimism About U.S. Deficits

OW211259 Tokyo ASAHI EVENING NEWS in English 20 Dec 84 p 5

[ASAHI SHIMBUN 17 December editorial: "Twin U.S. Deficits"]

[Text] As the U.S. economy, which has been spearheading world economic recovery, has begun to show signs of losing steam, the Reagan administration is confronted with the critical issue of how to cope with America's twin deficits--those in the federal budget and in the balance of payments on current accounts.

With this background, the Economic Planning Agency released its white paper on the world economy. Attaching importance to the revitalization of the U.S. economy on the strength of technological innovations, the annual report predicts that business activity in that country will not stall for a considerable time to come.

The high interest rates in the United States are a pivotal problem in the present world economy. The federal government's massive siphoning of funds from the financial markets to cover its budget deficits pushes the interest rates up. But that is not the only reason. With brisk equipment investments under way in high technology and other industries, private-sector demand for funds is also strong. On the other hand, the stabilization of the economic situation has lowered the personal savings rate, instead of raising it. Taking all these into consideration, the white paper says the interest rates will not come down much in the days ahead.

The high interest rates work to raise the exchange value of the dollar and thus worsen current account deficits. Even if the temporary factors, such as the fact that the U.S. economic recovery came about earlier than in other countries, begin to fade, the current account deficits, attributable to the robust investments in the United States, will not easily diminish, according to the report.

These views are apt to breed pessimism, but their report's tone is surprisingly upbeat. It emphasizes that the high interest rates and the growing current account deficits reflect improvement in the fundamentals of the U.S. economy. It goes so far as to say that the decline in America's relative economic position in the world has come to an end. Although the report makes good points, there is no denying that it appears to overestimate that country.

The twin deficits are being covered by the massive inflow of capital from abroad. But how long can such a state of affairs continue? It is said that the United States' external net asset position will show a minus figure next year if there is no improvement in the balance of payments on current accounts. Won't the world be thrown into confusion as confidence in the dollar is shaken up? Optimism cannot carry sufficient conviction unless these problems are given full consideration.

At any rate, what is required of the United States is to take prompt action to rebuild its finances to help stabilize the world economy. Such action will serve to correct the value of the dollar to a proper level and reduce the current account deficits.

Fortunately, President Ronald Reagan seems to have begun making more serious efforts than before to grapple with the issue after winning re-election.

The tax reform plan, presented by the Treasury Department, is said to involve practically no increase or decrease in tax revenue as it is principally aimed at simplifying the tax system. But Reagan has set the target of cutting the budget deficits to about half of the present level by fiscal 1988, mainly through spending cuts. He has shifted his stance on defense spending, which has so far been immune from cuts, to curb its rate of gain.

The foreign ministers of the United States and the Soviet Union will begin talks in January to open the way for comprehensive disarmament negotiations. While Moscow seems poised to increase defense appropriations in its fiscal 1985 budget again to show off its strength, Washington is moving to demonstrate its desire for disarmament in the area of finances. The difference in the attitudes taken by the two superpowers is worthy of note.

In the view of the Economic Planning Agency, the burden of military spending is impeding economic development, particularly in the East Bloc. It calls on the major powers of the world to channel the surplus resources derived from disarmament to revitalize their own economies and to help developing nations. We feel the same way. Military spending will be an item which everyone will have to consider in discussing the world economy in the days ahead. The EPA should come up with more specific economic analyses to show that disarmament is in order from an economic point of view.

CSO: 4100/140

ECONOMIC

CENTRAL BANK READY TO PROTECT YEN VALUE

OW091119 Tokyo KYODO in English 0922 GMT 9 Jan 85

[Text] Tokyo, 9 Jan, KYODO--The Bank of Japan will intervene in the foreign exchange market whenever the exchange rate of the Japanese yen fluctuates wildly, Governor Satoshi Sumita said Wednesday.

Sumita told a regular press conference that he feels the market is "overly reacting" to the present situation in the United States where the economy is entering a "path of stable growth" and to the 5 percentage point gap in Japanese and U.S. long-term interest rates.

The dollar finished at 255.00 yen Wednesday, up 1.25 yen from Tuesday's close.

Sumita insisted the yen is stronger against European currencies and expressed belief the dollar would not remain firm for a long time, adding the yen's decline against the U.S. currency mainly stems from various factors in the U.S.

He said, however, that he sees no factors at present which could bring about a rebound in the yen's exchange value against the dollar.

He said concerted intervention in the exchange market by the Japanese, U.S. and West German central banks would be considered if the market fluctuates "in a disorderly manner."

"But this is not the time for such intervention," he declared.

While he refused to disclose what was discussed at a meeting of the central bankers of major Western advanced countries, held in Basel, Switzerland, earlier this week, he indicated the dollar problem was a major issue.

He said the present weakness of the yen against the U.S. dollar resulted partly from the continued outflow of Japanese capital to the U.S., taking advantage of the wide interest rate differential between Japan and the U.S.

But he anticipated the capital outflow would not continue in an expansive way.

Meanwhile, Finance Minister Noboru Takeshita also said in a luncheon meeting that he believed the yen's weakness resulted from the present gap in Japanese and U.S. long-term interest rates and the market perception of a sound outlook for the U.S. economy.

Sumita's view was echoed by influential Japanese bank economists Wednesday.

Isao Nishimura, managing director of Sumitomo Bank, did not expect the yen to continue falling rapidly in the days ahead and reach the 260 yen level soon.

He anticipated the time would come "in the not distant future" when the yen will rebound from its sharp depreciation, while adding that the market would experience a year of "unstable overshooting" of the yen this year.

Although the yen may fluctuate widely in the days ahead, he said, it will possibly turn basically upward from around this autumn.

Kazuaki Harada, chief economist at Sanwa Bank, also forecast the yen would not drop below 260 yen to the dollar immediately.

The gap in Japanese and American long-term interest rates may be narrowed to about 3 percentage points around March, thus checking the flow of Japanese capital to the U.S., he said.

"That will be about the time when the yen would turn around toward an upward spiral," he said.

CSO: 4100/140

ECONOMIC

BANK GOVERNOR LAUDS JOINT CURRENCY MARKET POLICY

OW231225 Tokyo KYODO in English 1123 GMT 23 Jan 85

[Text] Tokyo, 23 Jan (KYODO)--Bank of Japan Governor Satoshi Sumita Wednesday expressed belief that five Western industrial nations' recent affirmation of their currency market intervention policy is having a good effect on the foreign exchange market.

Sumita told reporters that the U.S. dollar's exchange rate now appears to be stable as a result of this.

He was referring to a meeting of finance ministers and central bank governors of five Western industrial countries (G-5) held in Washington last week.

At the meeting, the five countries agreed to undertake coordinated intervention in foreign exchange markets when necessary, reaffirming the commitment made at the 1983 seven-nation economic summit in Williamsburg, Virginia.

Sumita, who represented Japan at the Washington meeting with Finance Minister Noboru Takeshita, said his impression at the conference that the United States itself did not consider a further rise in the dollar's value as desirable.

The Bank of Japan, he said, will take appropriate measures for the stabilization of the foreign exchange market whenever necessary.

Sumita said that he asked the United States to quickly take measures to reduce its huge fiscal deficit, a major cause of high U.S. interest rates, at the Washington meeting.

CSO: 4100/165

ECONOMIC

LDP PANEL STUDYING INDIRECT TAX PROGRAM

OW210301 Tokyo KYODO in English 0236 GMT 21 Jan 85

[Text] Tokyo, 21 Jan (KYODO)--A large-scale indirect tax is likely to be introduced as early as April 1987 following a full-fledged study on the new tax system by the ruling Liberal Democratic Party, expected to start in early March this year, LDP sources said Monday.

A special panel entrusted with the task of offering proposals for revamping the present tax system is expected to be set up in early February, headed by former Finance Minister Tatsuo Murayama.

An LDP leader said a basic change in the tax system, which now heavily relies on direct taxes, must be carried out in the way of raising the ratio of indirect taxes (now about 30 percent) "promptly and courageously," stressing the need to implement some of the panel's recommendations even in April 1986.

But a prevailing view within the party favors revision of the system from fiscal 1987, starting in April 1987, because of the time-consuming discussions expected by the Tax System Council, the party's authoritative tax-writing body, the sources said.

A senior member of the council said it would be absolutely difficult to introduce a large-scale indirect tax from fiscal 1987 in advance of the Upper House elections scheduled for the summer of 1986.

"We don't dare to take such a risk," the member, who asked for anonymity, said.

Such a view is gaining strength within the ruling party, but the party leader, who also wanted to remain anonymous, said business leaders are increasingly inclined to accept a large-scale indirect tax in view of the snowballing budget deficits and even opposition parties now recognize the need to make a thorough reform of the tax system.

"The tax issue and domestic politics will have to be closely intermingled," the council member said.

CSO: 4100/159

ECONOMIC

RESCHEDULING OF JAMAICAN DEBTS APPROVED

OW221201 Tokyo KYODO in English 1150 GMT 22 Jan 85

[Text] Tokyo, 22 Jan (KYODO)--The Japanese Government has agreed to allow debt-ridden Jamaica a rescheduling of some 620 million yen (2.45 million dollars) in loans falling due between January 1, 1984, and March 31, 1985, government officials said Wednesday.

The two governments exchanged notes on the terms the same day, they said.

The debts include one of 90 million yen (360,000 dollars) repayable by the Jamaican Government to the Overseas Economic Cooperation Fund and one of 530 million yen (2.1 million dollars) owed the Japan Export and Import Bank by the Bank of Jamaica, the officials said.

The annual interest rates for the rescheduling will be 4.75 percent and 8.9 percent respectively, they said.

Japan and various European countries agreed last July to consider a rescheduling of Jamaica's accumulated debt, which totaled about 290 million dollars as of the end of 1983, the officials added.

CSO: 4100/159

ECONOMIC

MALAYSIAN MINISTERS URGE MORE ECONOMIC HELP

OW240205 Tokyo KYODO in English 0159 GMT 24 Jan 85

[Text] Kuala Lumpur, 24 Jan (KYODO)--Top Malaysian Government officials, in their meeting Wednesday with Japan's high-powered private trade mission, complained about Japan's inadequate market opening and other economic measures, sources accompanying the mission said Thursday.

According to the sources, Malaysian Minister of Finance Daim Zainuddin [name as received] and Minister of Trade and Industry Tengku Tan Sri Razaleigh told the mission organized by the Japan Federation of Economic Organizations (Keidanren) that Japan should take more serious market-opening measures than those announced last December as well as expanded economic cooperation measures.

The two ministers appealed, among other things, for Japan's continued granting of yen credits to help promote Malaysia's five-year national project, abolition of tariffs on such products as palm oil, stepped-up use of the country's merchant fleet and insurance system, and active participation in the country's ongoing utility privatization program.

Razaleigh also pointed out Japan's general lack of effort to help promote economic development of the six member countries of the Association of South-east Asian Nations (ASEAN).

In this connection, mission leader Yoshihiro Inayama, chairman of Keidanren, showed understanding toward Malaysia's stance, saying he will do the best he can to urge the government to correct the inadequacies, the sources said.

CSO: 4100/165

ECONOMIC

ABE ON WAYS TO HELP AGRICULTURE IN AFRICA

OW241119 Tokyo KYODO in English 1013 GMT 24 Jan 85

[Text] Tokyo, 24 Jan (KYODO)--Japan is considering the appointment of former Agriculture Ministry experts as roving ambassadors to Africa to assist the continent's agriculture, Foreign Minister Shintaro Abe said Thursday.

The plan will be implemented "as soon as feasible" in line with the Japanese Government policy toward African countries calling for the continent's revitalization and restructuring, a senior ministry source later said.

Addressing the Japan National Press Club, Abe mentioned retired experts of the Agriculture, Forestry, and Fisheries Ministry as potential candidates for roving envoys.

These ambassadors, the Foreign Minister said, will aid African countries suffering from famine and other hardships to become "self-sufficient" in food.

Shortly after his reappointment as foreign minister, Abe visited Zambia, Ethiopia and Egypt last November to take a first-hand look at the ailing African Continent.

That trip led him and other Foreign Ministry officials to conclude that food assistance alone will not solve long-standing problems facing African countries in the long run, Abe added.

One of the Foreign Ministry officials who accompanied Abe on his African trip said poor water quality and inadequate roads and food storage facilities were major problems facing Ethiopia and other African countries.

For example, this official said, "food cannot be transported due to the poor road conditions and it rots due to a lack of proper storage facilities."

In reviewing a recent trip to Fiji, Papua New Guinea, Australia and New Zealand with Prime Minister Yasuhiro Nakasone, Abe said at the Japan National Press Club that New Zealand's refusal to permit port calls by American nuclear-powered and nuclear-armed warships is a sensitive subject between the two countries. "It will be very difficult for the ruling Labor Party to change immediately its policy" banning such port calls, Abe said.

CSO: 4100/165

ECONOMIC

JAPANESE FIRMS TO BUILD THREE HOTELS IN CHINA

OW241153 Tokyo KYODO in English 0827 GMT 24 Jan 85

[Text] Tokyo, 24 Jan (KYODO)--Japanese-Chinese cooperation in Chinese hotel construction is beginning to soar, industry sources reported Thursday.

Three separate projects involving modern hotels in Beijing, Shanghai and Wuhan are expected to get off the ground this year for completion well before the end of the decade.

In Beijing, Taisei Corp will join with two Chinese firms and a Malaysian-Chinese firm to capitalize a 672-room hotel next to Zizhuinan Park in the Chinese capital.

The hotel, expected to cost 8.8 billion yen (34 million dollars), will include banquet halls, restaurants, bars, health clubs and a swimming pool.

Completion of the 24-story international hotel will be in December 1986 for opening the next year.

Taisei is to undertake construction on a complete turnkey basis, thought to be the first such contract for a foreign firm.

Taisei's partners in the project are China National Metals and Minerals Import and Export Corp, Agricultural Cooperative Sijiqing, and Rkb. Ltd of Malaysia.

In Shanghai, Aoki Construction and the Industrial Bank of Japan will join with Shanghai Tourism Corp and other Chinese interests to build a 60 million dollar, 27-story hotel by 1988.

An agreement for the joint company was signed Wednesday, bank officials said.

The company is to be capitalized at 12 million dollars and owned 45 percent by Aoki, five percent by Ibj and 50 percent by Chinese interests.

Ibj and the Bank of China will provide financing for the 48 million dollars not covered in the capitalization, the bank said.

In Wuhan, trading company Marubeni Corp of Japan, China Civil Engineering Corp and Shengli Hotel will cooperate in a renovation of the 35-year-old Shengli Hotel.

Marubeni and China Civil Engineering will share 65 percent of the 3 billion yen (11 million dollars) renovation cost on an equal basis and the hotel will provide the remaining 35 percent, Marubeni said.

A formal agreement on the deal, to be signed in the middle of next month, is expected to call for Marubeni to provide 800-900 million yen (3-3.5 million dollars) worth of elevators, aluminum shashes, air conditioners and other equipment in addition to participation in the renovation, Marubeni added.

.CSO: 4100/165

ECONOMIC

EFFECTS OF CHINA'S OPEN-DOOR ECONOMIC POLICY ANALYZED

Tokyo BOEKI TO KANZEI in Japanese Nov 84 pp 10-16

[Article by Nagao Watanabe, advisor, Nikko Research Center Ltd: "Rubicon Already Crossed"]

[Text] Tremendous Changes

First, I would like to introduce myself. Since I entered the Toa Dobun Shoin [university] in 1934, I have been a modest China watcher for fully 50 years, constantly observing China both directly and while engaged in some other work. Today, I would like to discuss my private views concerning China.

Twenty-seven years ago, I was ordered to open a Bank of Japan branch office in Hong Kong. It seems like only yesterday that a large bunting with the slogan "The people's commune is good" was hanging from the Bank of China building in Hong Kong, which is now under reconstruction. After listening to stories by refugees from the mainland with my own ears, I reported to my head office that "the people's commune is not good."

Ever since then, I had always thought: "Mao Zedong is wrong in implementing politics that are counter to human nature." I was at the Shanghai office of the Bank of Japan about 40 years ago soon after the war, so I was well aware that the Chiang Kai-shek regime at the time was corrupt and that the communist government was able to convert China with its huge population into a socialist state. Perhaps it can be said to have been a necessary evil because of the great number of poor people. Nonetheless, the system gradually began to reveal its shortcomings.

That is to say, China is confronted with numerous political and economic problems, and it is in the midst of making adjustments. However, if we reflect on the past half-century from a broad perspective and also observe China in comparison with other nations, it has entered a favorable stage today, relatively speaking, despite its slow progress and numerous failings.

I have visited China 11 times since the war ended. I went there twice last year and also made a trip for half a month in the spring of this year. Every time I go there, I am amazed at the remarkable changes that have taken place. Of course, the unchanging framework of bureaucracy and toadyism that impede

its historical progress remain, but nonetheless major changes have occurred in various aspects. Naturally the buildup of the infrastructure, including transportation and communications, takes time and can be irritating. For example, it is difficult to get an intercity phone call through in Beijing. On the other hand, it is now possible to get a call through from a hotel in Shanghai to Tokyo instantly. The rattling Soviet Ilyushin planes are gradually disappearing from the scene, and today the British Trident and the American Boeing jets are beginning to be used.

One can fly from Hong Kong to Canton in 25 minutes. It is quite a change when one recalls that, in the past, one had to enter cautiously into China by train. Moreover, there are direct flights today not only from Hong Kong, but also from New York and Tokyo.

On each visit, I was able to ascertain a favorable change in the farming areas. It is a well-known fact that well-to-do farmers from the Wanyuanhu district recently visited Japan on a sightseeing tour. Housing construction in the farming areas is also noticeable.

#### What Is Adjustment?

At this point, I will embark on my main topic. Whenever one discusses present-day China, it is necessary to talk about "adjustment" or "reform." Let us take a look at China in relation to such matters as country risks and international monetary instability, which are my specialty. The nations of Central and South America are unable to repay their foreign loans and are confronted with severe financing conditions by the IMF concerning relief loans, and are forced to rely on outside help. On the other hand, China has taken the initiative to implement self-adjustment and has succeeded. Major Asian debtor nations such as South Korea and Indonesia have also belatedly begun self-adjustment, but China has been a step ahead in putting it into practice. Moreover, it is noteworthy that China is alternating adjustment and reform of its system.

Chairman Mao Zedong died on 9 September 1976 (the Double Ninth Festival). Since then, China's politics and economics have undergone a Copernican evolution. China's reform and external open-door policy are the results of 8 post-Mao years of trial and error.

Immediately following Mao's death, the gang of four was arrested, and Hua Kuofeng of the erstwhile Cultural Revolutionary faction became leader of the transition to launch a fantastic development plan, resulting in a "China boom." These events are still fresh in our memory.

In other words, it only took a short time to realize that the plan was beyond China's capability. It became clear that each and every plan concerning technology, management, infrastructure, internal finance and construction materials was more than it could handle.

The adjustment period began in 1979. What did adjustment mean? First, it meant the slowdown of development, or the economic growth rate. The Chinese

called it "progress through moderate steps." Secondly, it meant the reappraisal of agriculture and light industry that had been treated lightly in the past, and the relative toning down of heavy industry. However, energy and the infrastructure were to be treated as exceptions. Thirdly, in China's case; due to the absence of private investment in plants and equipment, much of the investment for development meant investment for basic construction with central planning. However, serious financial deficits resulted from hasty planning. This was to be changed in the direction of achieving balance. Fourthly, a balance in trade was to be maintained or brought into the black. Furthermore, the savings rate in China at the time was 36 percent and high compared to Japan's 20 percent and the 5-percent rate in the United States. However, this was the result of compulsory savings, and the living standard of the masses was kept extremely low, forcing them to lose enthusiasm. Adjustment meant eradicating the complaints that "life is meaningless if one must merely read Mao's Collection of Quotations, which are nothing but spiritual chants," increasing consumption and lowering the savings rate.

At the outset, the four pillars of adjustment, reform, orderliness and improvement were established, and these were included under the term "adjustment" in a broad sense. The two focal points were adjustment and reform in a narrow sense.

Next, what does reform mean? It is necessary to talk about reform first in discussing the present rapidly evolving open-door economic policy. Reform means that, while China's system of economic management itself is based on a framework of socialism, it has incorporated and mixed fairly liberal and capitalistic methods within that framework and aims to boost the people's enthusiasm to increase production efficiency. The Chinese call it "wa-chien" and aim to provide independent authority to business enterprises, farmers (laborers) and local governments, thereby stimulating the economy.

What has happened as a result of such policy changes? Although China was close to a financial balance as a result of adjustment, things went too far and production in the heavy chemical industry temporarily entered a broad decline. Also, due to the enforcement of reform, commodity prices rose, central authority lost its effect and various flaws became apparent. At this point, a plan for alternately emphasizing adjustment and reform was set in place, and has continued until the present. The present may be considered as a stage of increasing consolidation of adjustment (tentatively until 1985) and the beginning of an emphasis on reform. Deng Xiaoping made that decision early this year, and the great march toward reform interfaced with an open-door policy has just begun.

Today, the powerholders of government centering on Deng Xiaoping, Hu Yaobang and Zhao Ziyang are facing internal political foes. One group is the army and another group is linked to the still healthy Hua Guofeng. In the rural areas, the Cultural Revolutionary faction is still a force to be considered. Moreover, the fact cannot be ignored that a confrontation exists between the pro-adjustment faction and the proreform faction within the present regime of powerholders. At the top of the proreform faction is Deng Xiaoping who weaves left and right while maintaining an appropriate balance, and under him are Hu Yaobang and Zhao Ziyang.

At the top of the proadjustment faction is Chen Yun. He is an economic technocrat who rose from a typesetter in a Shanghai commercial printing firm and implemented the First 5-Year Plan in cooperation with the Soviet Union. Although he is the sixth ranking member of the Communist Party today, he has considerable influence and both power and a good reputation. His motto is: "Do not hasten economic construction. Do not open the cage door of socialism too widely."

There was an extremely strange campaign going on concerning "spiritual pollution." The rationale was: "When we opened the window under an open-door policy, fresh air entered from the outside, but mosquitoes and flies also entered." It temporarily caused foreign countries to recoil from cooperation, but the campaign was born in October of last year and was squeezed out by January of this year. There was the following episode. Since not only the leftwing but also the proadjustment faction did not think well about the open-door policy, "spiritual pollution" was used as a diversionary tactic against Hu Yaobang, while Deng Xiaoping merely stood watching on the sidelines.

However, during January and February of this year, Deng Xiaoping personally inspected the special economic districts of Shenzhen and Xiamen, and he became confident that the smooth conditions would contribute greatly to the advancement of China's economy. He also took along members of the opposition to observe the actual conditions, and succeeded in convincing them. His words of encouragement were: "The special economic districts are doing exceedingly well. I want your best efforts." Concern about his own longevity may have prompted his impatient prodding.

Then suddenly, 14 other special districts were designated as secondary special economic districts. Moreover, this time the focus was on Japan--to import its technology and capital--in order to promote China's modernization. Qingdao was indeed chosen with Japan as the target. During Prime Minister Nakasone's visit to China this spring, the promotion of joint ventures by Japan was especially requested.

What I wish to point out in this connection is the issue of cancelling the Paoshan project of 1981. Adjustment was begun prior to that, but actually ended up unfinished. Full-scale adjustment began in the spring of 1981. At the time, immediately before Poland became unable to repay its foreign debts, China looked at Poland's conditions of overextended development and realized that, based on its own capabilities, it would be unable to repay the loans it had planned to borrow to build Paoshan. It therefore decided to cancel the agreement at the import contract stage.

Looking at this measure in retrospect, it was indeed a wise choice in turning to self-adjustment, despite a temporary feeling of shame concerning the default. In this respect, it is quite different compared to the South and Central American countries and the Philippines. In terms of the credibility of the country itself (country risk), China has presently risen to the global rank of B, just under A.

### What is Reform?

Now, reform involves the will of the farmers and laborers to work. With that in mind, farm commodity prices were raised and the workers' wages were hiked (they are now being held back, because they became a factor for inflation).

Also, since about 3 years ago, China voluntarily began to discontinue the people's communes. This involves two phases. The people's commune has combined an administrative function (including military and educational affairs) and a productive function (agriculture and small industries). It was a policy that was adopted vis-a-vis the Soviet Union during the Mao era, to enable the rural areas to survive in the event they became isolated. Of the two functions (unity of government and society), the first point of reform was directed toward government, reviving and restoring the former village or district government to relieve the burden of administration from the people's commune.

Also, the second step of dismantling was intended to restore the commune to a de facto private ownership system, while retaining the collective ownership system in form. According to a notice by the Chinese Communist Party that was issued in January of this year, "Farmland will be leased to each family for 15 years or longer." At the outset, the lease was for a maximum of 2 or 3 years, but the people would not do their best to cultivate the land if they thought it would pass into the hands of another family after a short period.

Furthermore, it was decided to let the family sell the right of use to another family in some cases. It was also changed to a production contract system. As long as a given quota was filled, the family could claim any surplus crops as its own, and the farmers thus began to work with increased zest.

I personally inspected farms in various areas, and have seen major changes during the past 2 or 3 years. There are new houses and more of them are being equipped with television sets. There are also farm families that have bought small trucks. Of course, there are still many indigent districts in the hinterlands, but despite the different levels, there has been general improvement.

China's population totals more than 1 billion, of which up to 800 million are farmers. The improvement of the farmer's livelihood is therefore the secret of government.

If the people discard the old spiritualism and work hard, the fruits can become their own, their livelihood will improve and they will even be able to travel abroad.

They will be able to improve their living standard by their own efforts, and this is actually being realized through the dismantling of the people's commune.

In China, provincial ownership is called state ownership. The majority of enterprises is under state ownership and the right of ownership belongs to the state. Therefore, profits from the enterprises had been submitted totally to

the state. Regardless of the profits made by an enterprise as a unit, no bonuses were given to the workers, and permission from the government was necessary for an increase in facilities. The enterprises have had no independence and did not find it worthwhile. It was therefore decided that profits would no longer be surrendered intact to the state treasury, but would be collected in the form of taxes (business income tax and adjustment tax), with the enterprise allowed to keep earned reserves. This is called a "reformed profit tax." The use of earned reserves is left up to the enterprise. In addition, the enterprise may borrow funds from the banks. Financial investment funds were also revised so that a portion is now interest-bearing bank loans. The rural districts were also given independent financial authority and import rights, thus enhancing their independence.

Despite such reforms, people in any country tend to adhere to sectionalism. This propensity is especially strong in China. It is therefore a fact that various power struggles are taking place.

Contradictions are seen everywhere in the sense that, despite the transfer of authority to the local districts, matters are not progressing smoothly in practice. There is also a move to return authority to the central government, due to an excessive transfer of authority to local districts. In that sense, it is a transitional period, and subtle vibrations are taking place. However, as a general trend, reform can be considered to be making progress.

Looking at the results of the alternate advancement of adjustment and reform in terms of statistics, industrial production last year increased by 10.5 percent compared with the previous year. Especially heavy industry, which occupied a considerable share, grew despite continued efforts to check it. Agriculture grew at a rate of 9.5 percent, with grains alone showing an amazing growth of 7.5 percent.

This is excessive in the light of general adjustment, and the authorities point out that an adequate growth rate is 5 percent for industry and 4 percent for agriculture. In any case, the target date of the Sixth 5-Year Plan (1981-1985), which is the first stage of a plan set at the end of 1982 to "quadruple the overall agricultural and industrial production by the end of the century," was already moved up by 2 years and achieved by the end of 1983. Item-by-item, foodstuffs reached a record high of 380 million tons last year. Target dates were likewise moved up for raw cotton, coal, crude oil, steel, cement and chemical fertilizers, and their goals have already been achieved.

However, it is difficult to think that this pace will continue forever. The Seventh 5-Year Plan from 1986 to 1990 is now under study.

Meanwhile, trade was adjusted by cutting back imports. The Baoshan problem arose in this connection.

The two-way China trade today is worth \$44 billion and its one-way trade is worth about \$22 billion, but an export surplus has continued since 1981. This is due to the import cutback and a curb on the foreign exchange market. The developing countries that are guilty of mismanagement are conversely

overvaluing their own currencies, and are reluctantly obeying the IMF's advice to devalue them. On the other hand, China has quickly taken the initiative to implement devaluation. One yuan in the people's currency was worth 67 cents in U.S. currency at the end of 1980, and about 50 cents at the end of 1983. It was 38 cents as of 18 September of this year. A yuan is worth exactly 100 yen in Japanese currency. During this period, the rate of yuan devaluation totaled about 40 percent. It is no wonder that exports are promoted and imports are controlled, resulting in savings of foreign exchange.

China has a two-tier market quotation system. The internal price has approached nearly 2.8 yuan to the U.S. dollar (1 yuan = 36 cents). As a result, foreign currency holdings at the end of March of this year totaled about \$16.7 billion and slightly under \$500 million in gold. These foreign currency reserves are equivalent to 10 months' imports by China. Japan has more than \$20 billion in foreign currencies, but holds less than a 3-month supply in reserves. We warned the Chinese that it is inefficient to hold so much in foreign currency, and they themselves are well aware of it. Nonetheless, it is the reason why China's foreign credit has been fully restored.

#### There Are Problems Behind Reform

All this presents a completely rosy picture, but there are also numerous problems. While a system of production responsibility has been implemented in the industrial sector, things are not moving as smoothly as in the agricultural sector. Shoddy products are being manufactured, costs are excessive and deficits in state enterprises are still common. As a result, there is the problem of inadequate funds to be absorbed for China's finance. General Secretary Hu Yaobang frankly points this out.

It also involves the problem of the price system. For example, the prices of energy, raw materials and farm products are kept low. Steel brings profits because it is imported at low cost and sold at high prices.

However, profit-and-loss is determined in reverse by planned decision by the government regarding costs, product prices and the rate of depreciation. The "interest reform tax" has entered its second phase, and the contradictions in the price system have been camouflaged by the "adjustment tax." A correction toward a fair price system will take time.

In addition, agriculture has admittedly been reformed drastically, but problems have arisen in the meantime. First, the population has begun to increase. In 1979, the population growth rate declined to 1.17 percent, but subsequently began to rise again. The reason is, if more children are born, the family will have more workers to earn money. However, the burden on the state for education and maintenance of the infrastructure will increase, and the per capita GNP will be kept down. The goal is to keep the population at 1.2 billion at the end of the century, but it will probably be exceeded. There is also the problem of an aging society, and a second look is being taken regarding a "single-child family policy."

The armed forces are also in a trade-off situation. In the past, it was said: "A good man does not become a soldier," but with the People's Liberation Army

it was changed to: "A good man becomes a soldier." However, due to the current prosperity in the farming areas, fewer men wish to become soldiers, which displeases the army.

Moreover, the war against Vietnam was lost with the use of the antiquated "human wave" tactic. In order to promote modernization of the military, an enormous budget is necessary. Since economic investments are made within a set GNP, it means a correspondingly smaller military budget. This too does not sit very well with the military. Such disputes with the military stem from the policies on reform.

Furthermore, class divisions are again emerging. Although the annual per capita income is \$250, there is a big difference between the urban areas and the hinterlands. The income in Shanghai has probably reached \$1,000. Even in the rural areas, there is a wide difference between the extremely poor hinterland and a district like Wanyuanhu where many inhabitants are making money in nonfarming trades such as freight-forwarding and poultry raising. This may cause envy and resentment. If such frustrations should increase, it may trigger a return to a leftwing trend. The distribution system is presently being improved, but it is still far from adequate. A shortage of energy is inevitable from a long-term outlook. Oil production is presently 100 million tons, and more than 10 percent is exported. Especially the present electric power shortage is quite acute, and efforts are being made to overcome it with hydraulic power and nuclear energy.

### Three Modes of Introducing Capital

The two main pillars of present China policy are reform and an open-door policy, with adjustment somewhat in the background. Also, reform and the open-door policy are in a close mutual relationship. As was mentioned before, state policy was changed to emphasize the upgrading of the people's living standard. It is necessary toward that end to make the GNP pie larger. Funds are necessary for that purpose, but it is difficult to adopt a policy that holds down the people's consumer habits by enforcing domestic savings. There is thus only one solution--to introduce capital from foreign countries. From the standpoint of economic principles, this is a natural course. Today China is implementing a policy in line with this principle.

The money from Japan's Overseas Economic Cooperation Fund, the Export-Import Bank and the World Bank, and commitments of public funds by foreign governments and foreign private (commercial) funds are reported to total some \$15 billion. Meanwhile, however, China has adopted an adjustment policy and has accumulated foreign currency on the one hand, and has been rapidly repaying loans with high interest from commercial banks and the IMF, excluding long-term and low-interest loans from public funds.

Although there are many theories, I wonder if the balance of China's present foreign borrowings is not merely about \$3 billion. Its debt service ratio is therefore very low and its foreign debt situation is quite sound.

As was mentioned before, China's foreign currency holdings total about \$17 billion, including gold. Since the sixth 5-year plan envisions a total

investment of \$1.8 trillion, even if the entire foreign currency reserves were spent they would be less than 10 percent of that. Therefore, China's policy is to spend its savings appropriately, and concurrently to borrow adroitly from foreign commercial funds (mobilizing internal funds, of course). If the interest rates in Japan and the United States should drop lower, it would like to borrow much more. Also, the top bureaucratic authorities have publicly stated: "We would like to borrow about \$50 billion during the next 10 years."

Today, oil development on Hainan Island is about to start with an annual production goal of 10 million tons, and offshore development is about to begin in the Pohai Bay and off Chuchiang. This spring, during Prime Minister Nakasone's visit to China, a second-round loan of 470 billion yen (\$2.1 billion) was committed. In addition, a commitment was reportedly obtained from the Export-Import Bank for more than \$2 billion for the energy-related field.

The foreign funds sought by China can be divided into three categories. The first involves the aforementioned public funds from the Overseas Economic Cooperation Fund and the Export-Import Bank, which are funds to build the infrastructure, and require low-interest, long-term repayment conditions. There is no limit to the amount of such funds that China would like to borrow.

The second category includes commercial funds. They consist of monies from foreign commercial banks, including Bank of China bonds and bonds issued by investment agencies in various parts of China. Today, foreign exchange risks aside, Japanese interest rates are relatively low, and China would like to continue a certain amount of borrowing. The Bank of China will soon issue 20 billion yen worth of yen-based public bonds in Japan. However, in general, it refrains from introducing high-interest commercial funds.

The third category consists of funds in the form of joint ventures with industrial circles, and are direct investments by foreign countries. They could well consist totally of foreign funds. What China welcomes today are the aforementioned first and third categories. Especially the third category constitutes stable funds. It also contributes to training of personnel through the study of superior technology and management capabilities. It was quite prudent of the Chinese to focus on that point. Instructed to "find joint-venture partners, since we are borrowing your money," foreign banks and securities firms are truthfully putting forth their best efforts.

#### The Point At Issue Regarding Joint Ventures

Meanwhile, the funds for joint ventures totaled only several hundred million dollars at the end of last year. Japan's share was a mere 6 percent of the total, so China is constantly applying pressure for more. Japan is behind Hong Kong and the United States. The reasons are as follows.

First, a country risk exists concerning the future internal political situation after Deng Xiaoping. Also, if a situation of "goodbye free world, hello Soviets" should occur, joint ventures will also be blown away.

Secondly, exports are strongly demanded of the joint ventures. On the foreign side, the mammoth China market of 1 billion people is a great attraction. The

Chinese side has recently made concessions and is recognizing import-substitute businesses and internal sales of products which they deem to be essential. For example, a joint venture company with Sony and telecasts by Fukuoka Nichinichi Television are being permitted in Lianyungang, Jiangsu Province. However, they still involve negotiations over costs and sale prices.

Thirdly, there is the problem of the imperfect legal system. There is no civil law, commercial law or company law. The rules of operation for the joint venture law are being worked out, but require greater speedup.

Fourthly, the conditions demanded by the Chinese side are very severe. A maximum of 30 years as the joint venture period is asking too much. In addition, land costs are comparatively high, and wages are high compared to labor productivity. Of course, the awareness on the Chinese side regarding these points has recently improved considerably.

Fifthly, Japan's formula for decisionmaking in management is bottom-to-top. An adequate feasibility study is made concerning country risks, etc., and then passed to the top. Family partnerships with strong traits of private enterprise like Suntory Ltd and the Otsuka Pharmaceutical Company have made early entries, but others are generally showing caution.

In contrast, American enterprises adopt a top-to-bottom formula and are quick to act. Although Japanese enterprises adopt a bottom-to-top formula, entry will be easy provided more satisfactory investment conditions are met, and the number of contracts has increased since the beginning of this year.

In September of last year, an agreement to avoid double taxation was signed between Japan and China. An investment protection agreement to "compensate in case of a government takeover" will probably be signed also.

#### Post-Deng Era?

What about the first point mentioned earlier--the main post-Deng problem? Minor power struggles and policy struggles will probably continue after Deng, and there will be minor revisions. There is also the problem of class divisions. However, in the main, the Rubicon has been crossed, and there is no turning back. As I myself would have guessed for the past 27 years, the current policies are generally following a good trend. Of course, no one can make an absolute prediction regarding the future. However, despite numerous problems, it does not seem possible that the abominable Cultural Revolution will ever make a comeback.

The reason is that the present system is more suited to human nature. Since there were wide disparities in the past and a great many people were poor, Mao Zedong's homespun communism, saying: "If there is food, let us eat it together," could not be helped. As the series on the production of goods in the "Historical Chronicles" [by Ssu-ma Chien] points out, the Chinese are especially homo economix by nature and are perhaps not adaptable to a strict socialist system. This spring, I heard an elderly Chinese masseur in a certain city of China say: "The longer Mr Deng lives, the better China will become." Uncertainty exists concerning the post-Deng era, but these words are typical praise of present-day politics.

Secondly, the powerful energy of Mao Zedong, who brought about a revolution by rejecting feudalism and imperialism, is comparable to the Emperor Shih-huang-ti of the Chin Dynasty and Napoleon of yore. Nonetheless, he made mistakes. Perhaps his mistakes were 40 percent and his achievements were 60 percent. In any case, his energy now lies eternally buried next to Karl Marx. The champion fighter Ye Jianying, who fought in the revolution with Mao, is virtually at the close of his life. Chen Yun is already 81 years old. My opinion is that, regardless of how much the lesser leaders may strive, they lack the charisma to upset the present system.

Thirdly, the cooperation of the free world is indispensable for the development of China's economy. For example, without the introduction of capital from Japan and oil exploration technology from the United States, the modernization of China's economy is impossible. So, despite the furor over the textbook problem, once the principles were openly discussed and the problem settled, they came with smiling faces and asked: "Please lend us your money." Despite the problem of Taiwan, China needs American technology. In other words, I believe that the economic ties and unifying forces between China and the free world serve as a natural brake that keeps China from turning to the left.

I do not deny that some elements of my own hopes have influenced my analysis thus far. However, if the cultural revolution should reemerge in China, China will perhaps be ruined semipermanently. I do not believe the Chinese are so foolish.

The world is now in a jet-computer-communication age. It cannot afford to make China an orphan politically and economically. In passing, I would like to say that one can misconstrue China by looking only at China. It is important to observe China from a global perspective.

#### Future Direction of the Social System

Well then, where is China's social system headed? How far will China's socialism approach capitalism? While there may be a difference in nuances between Deng Xiaoping and Chen Yun, there are probably three identifying points in socialism. The first is the planned economic system. The second is the public ownership system. The third is the rejection of exploitation in the employment relationship. Even the Chinese leaders cannot confirm the end result of these reforms.

Chen Yun made a famous allegory to the effect that "a bird called freedom and reform is permitted to fly inside the birdcage of socialism. However, the bird is not permitted to fly outside the cage." In a similar vein, the reformist faction is greatly enlarging the birdcage. However, the principle of a planned economy remains at center stage, and the market economy remains unchanged in a secondary role.

Next, regarding the ownership system, a substantial change can be seen. Especially the collective ownership of the people's commune is disintegrating. Privately-owned land has expanded from 7 percent of the total arable land to 15 percent. Also, by recognizing the right to use the land for more than 15

years to each family, it has come close to de facto private ownership. As was mentioned before, the open-door policy is a way of introducing foreign capital through joint ventures and other methods, and the special economic districts were created to accomplish it. In addition to the previous special districts of Shenzhen, Zhuhai, Xiamen and Swatow, 14 other districts were added this spring as secondary economic districts. Zhuhai, which lies just behind Hong Kong, is already more than an export-processing district and enjoys various privileges. It is truly representative of "Red capitalism."

Moreover, from a long-term standpoint, Hong Kong (and maybe Taiwan too) will be added. Meanwhile, there is the hinterland economy, so China will have a three-tiered economy. Thus the outlook is for a mixed economy with emphasis on socialism--that is, on what is called a "socialist mixed economy."

Meanwhile, in order to make the pie called the GNP four times as large, the 7.2 percent growth rate must be continued for 20 years from 1981. It cannot be denied that there are numerous problems such as population and energy as growth-detering factors.

The population growth rate will bring an increase even at a 1-percent level. The per capita income therefore cannot increase easily. Deng Xiaoping is reported to have recently lowered the goal of \$1,000 in 20 years to \$600-\$700. If the population continues to grow steadily without a rapid growth in the overall GNP pie, the framework of socialism cannot be lifted even in the 21st century. If excessive pressure is used, the possibility of another revolution will arise.

Finally, what about the problem of exploitation? Previously employment of up to five workers was permitted. Now, up to 10 workers are allowed. However, only recently, it is reported that more than 10 workers can be hired if one pays proper wages through mutual help.

In any case, a grand experiment, unprecedented in the history of mankind and which takes the middle road between socialism and capitalism, or mixes the two, is evolving on the stage called China.

#### Relationship Between Japan and China

In closing, I would like to say a word about Japan's position in Sino-Japanese relations. Since we are neighbors, it goes without saying that we should have peaceful relations. However, it is not desirable to think that Sino-Japanese relations will proceed smoothly by merely exchanging platitudes of friendship. We must put aside sentimental views concerning China and first look at China with objectivity, and then enhance mutually complementary relations through give-and-take.

From China we must receive security for Japan vis-a-vis the Soviet Union and resources, and give China our technology, management know-how and capital. I believe that, when this mutually complementary relationship is balanced to an extent, the stability of Sino-Japanese relations will be maintained.

Although there may be some boomerang effect, it will not conceivably appear suddenly or very greatly. The reason is that China faces difficulties that I mentioned before.

One fact that we must not forget is the thick wall between socialism and capitalism. I myself have felt this acutely through my work.

The name Toa Dobun Shoin [East Asia Common Language Institute], where I studied, is actually an exaggeration. It is an overstatement to say that Japan and China share the same language. Both our written and spoken languages are different, as well as our mentalities (ways of thinking and cultures). There are some people who advocate common abbreviated characters, but this seems rather hasty thinking. Of course, Chinese culture is closer (to Japanese culture) than Indian, Middle East and Latin cultures. However, I believe that we can only build real and long-term Sino-Japanese relations by recognizing the fact that "Japan and China are really different."

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ECONOMIC

PRC MOVE TOWARD FREE ENTERPRISE

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[Special report by Chinese affairs researcher Kazuo Hashimoto: "China's Dangerous Gamble: Is China Making a Move Toward a Free Economy?"]

[Text] "When I first heard it, my reaction was, 'nonsense; surely someone must have heard it wrong.' Then, later when I checked with a person 'in the know' and learned it was true, my feeling, was 'what in the world has happened to China?'--it was a feeling of more puzzlement than surprise."

What is referred to in this statement of amazement by a leading official of a certain influential securities company, a self-acknowledged China expert, is China's decision, officially adopted on 6 April, to establish 14 additional Economic Special Zones.

A so-called Economic Special Zone ("Special Zone" for short) is a specially designated area which is being made available for foreign investments in the form of either joint ventures, jointly managed enterprises or 100 percent capital subscriptions. Its aim is to utilize the resulting free economic system as a vehicle for an early fulfillment of the Four Modernizations (agriculture, industry, national defense and science and technology) targeted by the Deng-and-Hu main current faction.

As is well known, since 1979 there have been four Special Zones established on an experimental basis: one each in Shenzhen and Zhuhai areas (both in Guangdong Province bordering Hong Kong and Macao, one in Amoy (in Fujian Province), and one in Swatow (in Guangdong Province).

Among them, take for example the Shenzhen Special Zone, which has an area totalling 327.5 square kilometers--four times the size of Hong Kong Island. Intended as a comprehensive special zone equipped with all facilities such as industries, housing and exports processing, currently the construction of infrastructure, housing, factories and other related facilities is in progress there. By the end of 1984 the infrastructure covering an area of 20 square kilometers will be finished, and the grand plan calls for the completion of the entire facilities for the special zone by the year 2000.

In the case of these four special zones, with the exception of a very small number of Japanese companies that are planning to take part in them, most of

the participating businesses have been those belonging to overseas Chinese elements. Hence, the Deng-Hu team reportedly looked into the idea of establishing additional special zones on the belief that what is needed for rapid modernization of China is not the small-scale and quiet flight kind of overseas Chinese capital but firm support from large western-type enterprises of Japan, the United States and Europe. In this context, Dalian (in Liaoning Province) and Shanghai were considered ahead of all others as the sites for the new special zones. It was believed that to have investments from and joint ventures with those businesses of Japan have especially close ties with China will serve as inducement of influential enterprises from Europe and the United States.

It goes without saying that Dalian is as important a strategic point as Zhangchun (former Xinjing) in the old Manchuria, and that Shanghai is China's gateway to and from the outside world, laden with proud, old history. Both Dalian with its acacia trees and Shanghai with its bund (along the Huangpu River) are the old towns that excite the nostalgia of these Japanese industrialists and financiers who had been to the pre-war China--enough so as to make them almost forget their mercenary motive.

It was none other than these Dalians and Shanghais with which China, out of the blue, approached Japan on 8 March by saying, "We will open them as special zones for the benefit of Japanese enterprises." The appeal was made by Hu Qil, a secretary in the Secretariat of the Central Committee [CC] of the Communist Party of China [CPC], who handles all party affairs under the leadership of General Secretary Hu Yaobang, to Managing Director Takeshi Noda (LDP Dietmember) of the Japan-China Association (Prefacing Seiji Kaya, chairman) - his remark with the comment, that he was conveying "a message from Deng Xiaoping," Hu urged Noda to ensure a positive response by the Japanese side.

Since it is reported that even Noda, who heard it directly, had momentary difficulty in grasping its meaning, it is no wonder that the aforementioned heading official of a securities firm, who had only heard it indirectly, could not believe his own ears. Such a reaction is perfectly understandable, given the fact that China which until as recently as the mid 1970's, had actively charged that "imperialists and colonialists, using loans and concessions as foot holds, barged into China and devoured China and the Chinese people to their heart's content," is now volunteering to establish in Dalian and Shanghai--China's coastal gateways--special zones which could be viewed as "economic concessions."

#### Deng Xiaoping's "Revolutionary Statement"

It turned out that about the same time when Japan's attention was focused on every move of Prime Minister Nakasome--the "weathercock prime minister" whom China once accused of being a "militaristic politician"--during his China visit beginning late March, in the same town of Beijing a gathering called "Conference of Coastal Cities" was being held under the joint auspices of the CPC-CC Secretariat and the State Council (the government).

The recent decision to establish special zones in 14 cities--Dalian and Shanghai as already mentioned plus Qinhuangdas, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Ningbo, Wenzhou, Fuzhou, Guangzhou, Shenjiang and Beihai--was reportedly made simultaneously with the 6 April closing of the said conference, which was attended by General Secretary Hu Yaobang, Premier Zhao Ziyang and top leaders of the National People's Congress (the legislature) and local-level organizations. Also adopted at the same time were the following policy decisions regarding the special zones: (1) Existing policies will be relaxed for these special zones so that the cities and enterprises involved can expand their externally-directed economic activities with increasing vigor; (2) In some cases, certain conditions will be imposed to make sure that the construction of the economic development areas proceed at a measured pace; specifically, a zone with a clear-cut boundary line separating it from the existing town area will be established complete with all necessary basic facilities to accommodate centralized construction of foreign businesses there; and (3) Some of the policies governing (the existing) economic special zones will be adopted to accord these additional special zones preferential treatment.

Interesting to note was an earlier article carried by the April 4th issue of the economic newspaper "JINGJI RIBAO," in which a statement attributed to Deng Xiaoping was reported as follows: "Our coastal area is high in economic efficiency but has the weakness of lacking in resources, whereas our inland area, though rich in resources, is plagued by inadequate transportation and relatively low levels of culture and technology as well as fairly inferior economic efficiency. We must, therefore, first develop the coastal area, and, by using the resulting capital and technology, lead and assist in development of the inland area. Only then can the inland area be expected to achieve economic affluence fairly quickly."

Viewed from the standpoint of China's development, this may be considered a "revolutionary statement." For China, since the 1960's when the Sino-Soviet confrontation peaked, has been following the basic principle of "third line construction" for reasons of national defense. The third line refers to the inland areas away from the region directly facing the Sino-Soviet border (the front line) as well as from the coast--i.e., the northwest region (the provinces of Shaanxi, Gansu and Qinghai, and the Ningxia Muslim Autonomous District), the southwest region (the Provinces of Sichuan, Yunnan and Quizhou) and the western sectors of the Henan, Hubei and Hunan Provinces. In such third-line areas, the key industries have been built scattered in between mountain ranges so as to conceal their existence.

The third line of construction was a means for self salvation; it was also a manifestation of the Mao Zedong-style socialist economic policy--a policy that is "concerned with inequality"--striving toward the elimination of the economic and livelihood gaps between the poverty-stricken inland back country and the relatively well-off coastal regions.

But the Deng-Hu regime has parted from the third line construction policy in favor of a policy aimed at enrichment of the coastal areas with the help of foreign capital and having the fruit of such a policy gradually spread to the

inland areas. In so doing, the regime has sought to demonstrate the efficacy of the concept of "growth first before equality."

#### Clever Scheme of "Using Barbarians to Control Barbarians"

Underlying Deng's bold policy shift is a judgment characteristic of him. First of all, he judges that the Soviet Union, owing to its stagnating domestic economy and the burdens of aiding its East European allies as well as Afghanistan and Africa, cannot afford to start a war against China. He believes, therefore, that now is a good opportunity to draw foreign capital from Japan and the West into China and that doing so is the most effective way to contain the Soviet Union.

Furthermore, Deng's idea is to let western foreign capital check each other. Once, Li Hongzhang, a prime minister during the Qing dynasty, allowed Great Britain, the United States, France and Japan to establish concessions in Tianjin and Shanghai and implemented a policy known as "using barbarians to control barbarians." Somehow it seems that the old wisdom of Li Hongzhang is at work behind the recent decision to establish 14 special zones. Given the fact that in the pre-war China Dalian was Japan's impregnable fortress while Tianjin and Shanghai were divided into colonial settlements of the United States, Great Britain, France and Japan, and Qingdao and Guangzhou were colonial concessions of Germany and Great Britain, respectively. Could it be that Deng Xiaoping, by opening up all at once these places with old memories to the Western nations, aimed to have various advanced nations compete against one another?

From the standpoint of western capital, the coastal special zones are more attractive than venturing into the interior. Any foreign business venture in China's interior must cope with problems such as inadequate infrastructure, difficulties in procuring raw materials, energy shortages and high assessment of land; in addition, it faces the uncertainty of possible seizure at any time. In this respect, a special zone is something of an "offshore island" separated from the interior and, as such, there a foreign business can--for the present, at least--escape from the effects of China's domestic politics, and also can hold the initiative in matters involving raw materials, production, labor and sales control. Additionally, the infrastructure is well established there and the preferential tax measures being offered are hard to ignore. For these reasons, it is a fact that even Japanese companies, which have been hesitant to get involved in joint ventures in the interior, are beginning to show strong interest in the special zones.

There is another factor: for Deng, establishing additional special zones also served as an effective tactic to fend off the offensive by the leftist faction centering around the "movement to eliminate the contamination by bourgeois mentality"--a movement that caught on during the summer and fall of last year. Specifically, the idea is to confine the "capitalistic contamination" within the special zones alone while keeping things under strict control in the interior, and thereby to further promote the "party rectification" move aimed at denouncing the anti-Deng faction--a move that commenced in October of 1983.

There is yet another factor: the decision to establish additional special zones is also aimed at shaking up Taiwan and promoting the cause of unification. Mindful that the British lease on Hong Kong is due to expire in 1997, the special zones already established in Shumchun and Zhuhai are serving as "show-windows," promising the foreign capital in Hong Kong and Macao of continued capitalistic development after 1997. In contrast, the 14 special zones to be newly established are designed to turn the eyes of foreign capital now concentrated in Taiwan's Gaoxiung exports processing district toward the Chinese mainland in order to isolate Taiwan's economy and, at the same time, to demonstrate the "China that understands capitalism" so that Taiwan's mood for reversion to the mainland may be stirred up.

All this is a vivid reflection of the ultrapragmatic multidimensional thinking on the part of Deng Xiaoping who, since the early sixties, has followed the course of production first over ideology, saying: "White or black, as long as it catches mice, it is a good cat."

Might the Contract Farming System Lead to Reemergence of Landlords?

The truth is that the resurrection of "capitalist China" had been well underway in the "interior" ahead of the "special zones." According a late February report by the RENMIN RIBAO [PEOPLE'S DAILY], the Party Central announced the following decisions through its "Directive Concerning 1984 Operations in Rural Areas" (Directive no 1): (1) Farmers' land contract periods shall be extended to 15 years and longer; (2) When a member of a people's commune becomes incapable of farming or must terminate his land contract due to change of employment, he may transfer the land to a collective or an individual; (3) When the land-use right is to be transferred, the former contract farming household shall receive reasonable compensation.

This document requires some prepatory explanation. Realizing that promotion of agriculture, which 80 percent of its one billion populace depends on, was the key to the development of a domestic economy, China initiated in 1979 a system of contract farming and land contracting. In other words, China--a country based on the socialist principle of public ownership of land and production means--adopted a policy of lending land to production teams or individual farmers belonging to people's communes for a period of 3 to 5 years and allowing these farmers to cultivate whatever crop suitable for the land by whatever method they believed appropriate.

As is widely known, since 1958 when Mao Zedong spoke the word "Benmin Gongshe Hao" (people's communes are good), China's rural areas have been practicing so-called socialist collective farming centered around people's consumers. But the belief that this method diminished the motivation of the traditionally conservative and individualistic farmers has led to the Deng regime's decision to "try out" contract farming and a land contracting system. As a result, during the last 3-4 years, the farmers have displayed keen enthusiasm not merely in agricultural production but also in such other activities as getting themselves involved in lucrative village industries, selling surplus farm products -- the portion that exceeded the norm -- at the free market, and finding themselves various side jobs (Arbeit). All of this has led to the

emergence, one after another, of the "10,000-yuan family" (a family with annual income of 10,000 yuan, which is roughly equivalent to 1,200,000 yen).

The fate of this land contracting system, which is about to expire in many areas beginning this year, has been watched by 800 million farmers with bated breath. Then came the Party Central's decision to "permit a contract for a period of 15 years and longer" -- a bold policy measure which surprised even the farmers themselves. Leasing the land for 15 or more years is, for all practical purposes, tantamount to land ownership for a generation.

Chinese agriculture, ever since the conversion to people's communes in 1958, has followed the course of "Yi-gong El-da" (firstly public ownership, secondly big scale), but now there has been a policy shift which could very well turn things around--possibly even all the way back to the agricultural administration of the pre-Liberation era. This is saying that the communist regime, which successfully carried out a revolution under the banner of crushing the "San-zuo Da-shan" (the three big mountains: imperialism, colonialism and bureaucratic capitalism) in big cities and doing away with big landlords in rural areas, is now trying to revive capitalism -- there is nothing more ironic and strange than this.

#### Voice of Opposition Even Within the Mainstream Faction

It is only natural that the Deng Xiaoping-style economic policy is drawing deep-rooted opposition from both within and outside the party. The 20 April issue of the People's Daily carried a thesis written by Li Desheng, a Politbureau member and the commander of the People's Liberation Army's Shenyang Unit. He pointed out in a straightforward manner that there are "some comrades who are not very pleased when implementing the direction and policy of the present leadership (centered around Deng Xiaoping)."

Speaking of Commander Li Desheng, he is one of the few survivors among the group risen to prominence out of the Cultural Revolution which had made a run along the leftist course. There is even an allegation that Li, with the Northeast Region (the three Provinces of Liaoning, Jilin and Heilongjiang) having one-third of China's heavy industries firmly in his hand, has build himself an "independent northeast kingdom" and has turned himself into a "warlord." Being the work of a man of such power, the thesis has caused a flurry of speculations.

One speculation views it as Commander Li's expression of loyalty toward the Deng faction. In other words, by contributing his views to the PEOPLE'S DAILY, which is the Deng faction's propaganda organ, Li is said to have sought to reject any notion to regard him as the leader of the leftist faction and, at the same time, to prod those opposing the policy of Deng's mainstream faction to reflect on themselves and to throw their support to the mainstream faction.

Another speculation has it that Li's thesis was made as an example of the opposition posture of the anti-Deng faction. This is the view that Deng's mainstream faction, finding it no longer possible to ignore the existence of the deep-rooted opposition group, decided to expose Commander Li's opinion in the press and, at the same time, to determine what other elements might follow Li's line.

As a matter of fact, the proposed expansion of "special zones" is being opposed by no less a figure than Politburo member Chen Yun (first Secretary of the Party's Central Discipline Inspection Commission) who is a pillar of the mainstream faction. An advocate of controlled economy and the nationalistic lines who insists that modernization must be achieved using China's own money, materials and manpower under firm leadership of the government, Chen argued in 1981 against expansion of special zones by saying "A special zone is that which enables the capitalist to indulge in cornering the markets and speculation to his heart's content."

Meanwhile, knowing full well such opposition by Chen Yu, Deng Xiaoping made an inspection tour of Shumchen and Zhuhai special zones from 24 through 29 January, during which he, accommodating a request by Liang Quangda, the acting mayor of Zhuhai, wrote out the seven characters reading "Zhu-hai-jing-ji-te-qui-hau" (Zhuhai Economic Special Zone is good). This calligraphy by Deng, the top leader of 1 billion people, while its meaning was in exactly opposite the direction outlined in Mao Zedong's words "Renmin Gongshe Hao," served as an official endorsement giving the "go" signal to the special zone, Chen Yun's opposition notwithstanding. It was taken as the manifestation of Deng's resolve to be personally responsible for the merit or demerit of the special zone idea; it speaks, without any question, of the almost unusual degree of zeal with which Deng is pushing this matter.

Be that as it may, about the 14 special zones to be newly established, the only pronouncement so far is that they will "resemble the four existing special zones including Shenzhen." Beyond that, it has not been made clear as to when and in what form an official announcement will be forthcoming regarding more substantive details. According to Chinese sources, it looks as though they will be made into industrial, housing and export processing zones or all-inclusive comprehensive special zones depending on factors such as geography, interrelations with the areas behind and the state of readiness of the infrastructure. Just the same, the countries of the West are still in a state of confusion over this matter.

Apparently the Chinese side expected that Japan, which had remained cautious as evident in the fact that it was involved only in 9 cases out of the total of 113 joint venture agreements China had worked out through the end of 1984, would jump at these economic special zones. In fact, although the city of Dalian is moving ahead rapidly with such projects as the construction of a microwave communications system between Shenyang and Dalian which is to be completed before the end of the year, the dredging of the Xiangjinjiao general

cargo pier to be completed next year, and the expansion of the Dalian civil airport, major Japanese companies are worried about the possible boomerang effect of the special zone. Their concern is, "what if helping Dalian emerge as an export processing area turns out to be an act of self-strangulation of the market for Japanese businesses? To date, Japanese companies are still unable to forget the shock they received when China suddenly, for reasons of lack of funds, suspended contracts totaling 420 billion yen and 300 billion yen in 1979 and 1980, respectively.

The truth is that Japanese businesses are simply watching the situation carefully for fear that the special zone concept, which is being opposed even within the mainstream faction, could disappear into thin air in case something should happen to the health of Deng, the leader who will be an octogenarian this summer.

Meanwhile, the contract farming system is already encountering a situation even more serious than what is facing the special zone project. For one thing, it is unpopular within the military as evident, for instance, in the aforementioned thesis by Li Desheng, in which it was pointed that the system "has caused hardship to some families that have sent men to the PLA [People's Liberation Army].

Unlike the past when the families of soldiers on active duty were graced with many favors such as labor service by members of the commune and a lower production norm, now that each household or each individual is busy under the contract farming system, no one can afford to worry about the soldiers' families any longer. Here lies the reason for the system's unpopularity within the military.

#### A Crisis in 1986 Hinted

It is with this background that the view predicting a crisis in 1986 is once again being heard. Confusion has occurred in China in a 5-year cycle: The cultural revolution of 1966, the Lin Biao incident of 1971, the arrest of the Gang of Four in 1976 and the downfall of Hua Guofeng in 1981. Every one of these crises occurred in the first year of a 5-year plan, when political confrontation arose over the recapitulation of the preceding plant. An extreme case in point is the severe convulsion that China experienced in a series of events during 1976, which was kicked off by the April Tiananmen incident leading to Deng Xiaoping's downfall, followed by the October coup d'etat in the wake of Mao's demise which crushed the Gang of Four and resulted in the restoration of Deng Xiaoping.

In 1986, China's foreign exchange needs will become insatiable: it is the time when the economic special zones are expected to show some initial movements; at the same time, China will be involved in modernization investment centered around high technology, a full-scale oil exploration in the South Sea (South China Sea) and the effort to improve its defense capability. It is also the time when China's repayment of loans will face a gradual increase. All of this could very well lead to a foreign exchange crisis coming to the fore.

Meanwhile on the domestic scene, by 1986 the crop yield from farmland, which had received an overdose of chemical fertilizer under the contract farming system, will begin to show a decline, which could possibly touch off criticism of the Deng Xiaoping-style agricultural administration among the farmers who have been awakened to a taste of prosperity as a result of a "bogus dividend."

Thus, there is a possibility that the sparks of discontent may lead to a sudden explosion when the leftists, crying out for "a return to the starting point of the socialism--justice and equality," direct their agitation effort to the farmers, for whom the fleeting "boom of 10,000-yuan households" is over and life goes on with little improvement despite their hard work, and to the urban laborers whose appetite for consumption has been aroused only to be frustrated by inflation. The troika, with General Secretary Hu Yaobang and Premier Zhao Ziyang serving as two wheels and Deng Xiaoping holding the rein, is being spurred on by the opening of special zones and the system of contract farming and land leasing. Such a bold policy has no assurance of success while there is fear that it may stumble.

The Western governments and businesses, eager to advance into China, will not miss the bus even if they wait to see how things turn out in China during 1984 before making up their minds.

9977

CSO: 4105/029

ECONOMIC

MAJOR STEEL MILL ENTERS JOINT VENTURE WITH PRC

OW210415 Tokyo KYODO in English 0401 GMT 21 Jan 85

[Text] Tokyo, 21 Jan (KYODO)--Nippon Kokan K. K. (NKK) has agreed with China to form a joint venture in Tianjin to produce equipment for off-shore oil and gas drilling wells such as jackets (steel frames), pumps and cranes, company officials said Monday.

The major steelmaker/shipbuilder will inaugurate Tianjin-NKK Offshore Equipment and Services Co. around April, the officials said.

It will be owned 60 percent by Tianjin Shipyard and Industry Corp, 28 percent by NKK and 12 percent by Marubeni Corp, a Japanese trading giant.

It will be the first Chinese joint venture involving a major Japanese steel mill. The new company expects China's demand for offshore well equipment to continue rising along with development of oil and gas reserves off the country.

CSO: 4100/165

ECONOMIC

AUTOMOBILE EXPORTS TO PRC RISING RAPIDLY

OW290421 Tokyo KYODO in English 0409 GMT 29 Dec 84

[Text] Tokyo, 29 Dec, KYODO--China is looming as a new promising market for Japanese automakers amid signs of Japan's auto exports to the country topping the 70,000 units this year, well over the previous peak of 26,300 set in 1981.

Though still small in size, the potentially huge Chinese market is attracting Japanese makers and some joint ventures have already started.

An industry estimate put Japan's auto exports to China for the first 11 months of this year at 56,870 units, consisting of 15,200 passenger cars and 41,670 commercial vehicles (buses and trucks).

In December, Toyota Motor Corp and Nissan Motor Co each are expected to export some 10,000 units, bringing Japan's total exports to China this year in the range of 70,000 to 80,000, according to the estimate.

The year's performance is conspicuous as an average export volume of Japanese autos to China has moved at a yearly pace of some 10,000 in the past 10 years.

The surge in Japan's auto exports to China this year has resulted from brisk construction of buildings and port facilities, increasing transportation of food and sundry goods between cities and villages, and insufficient truck production systems in China, an industry executive said.

In production, Daihatsu Motor Co signed a technical assistance contract with the Tianjin Automotive Industry Corp in March this year. Under the contract, production of the Daihatsu-designed light commercial vehicles started in October, with most major parts being supplied from Japan. The local content ratio of the vehicles is to be raised gradually.

In July, Suzuki Motor Co signed a technical tieup agreement with the China National Aero-technology Import and Export Corp for assembling light commercial vehicles in Beijing from next April.

Other Japanese automakers are also negotiating with the Chinese for joint auto production. Isuzu Motors Ltd, for instance, is planning to assemble small

trucks, and Nissan Diesel Motor Co is proceeding to realize joint production of large trucks.

Though it is difficult to precisely predict the trend of the Chinese auto market, prevailing view in the Japanese auto industry is that growing auto demand in China would not shrink immediately.

CSO: 4100/140

ECONOMIC

JAPAN COTTON INDUSTRY URGES CURB ON PRC IMPORTS

OW270439 Tokyo KYODO in English 0317 GMT 27 Dec 84

[Text] Tokyo, 27 Dec, KYODO--The Japanese cotton fabric industry, plagued by the rising imports of cotton products from China, is planning to appeal to the government to conclude a bilateral accord with China based on the multilateral fiber arrangement (MFA) to restrict the imports, industry sources said Thursday.

The industry is especially bracing for China's new export drive, centering on high-quality products, as the country, which replaced the U.S. 2 years ago as the world's largest raw cotton producer, has been introducing top-of-the-line machines from West Germany, trade sources said.

According to trading firms concerned, this year China's production of raw cotton will jump 18.5 percent from last year to 5.5 million tons and is gearing up for expanded finished product exports to Japan, the U.S. and Europe.

China, having the world's largest-scale spinning capacity or 2.5-times that of Japan, exported about 7,000 tons of cotton yarn and 430 million square meters of cotton cloth to Japan last year, up 27 percent and 19 percent, respectively from the previous year.

The country, whose textile exports constitute nearly 30 percent of its total exports, is stepping up its textile industry modernization program and, therefore, is not likely to abate its exports, the sources said. It occupies about 80 percent of Japan's entire cotton fabric imports.

The MFA includes a safeguard clause to protect the domestic market.

CSO: 4100/140

ECONOMIC

GOVERNMENT READY TO STIMULATE DOMESTIC DEMAND

OW291157 Tokyo KYODO in English 1043 GMT 29 Dec 84

[Text] Tokyo, 29 Dec, KYODO--Following the adoption of the fiscal 1985 budget plan, the government will follow an economic policy aimed mainly at stimulating domestic demand and further opening the Japanese market to foreign imports in the fiscal year beginning next April, government officials said Saturday.

The government will also continue to promote administrative and financial reconstruction, the officials said.

With the U.S. economy showing signs of slowing down, Japan can no longer rely on exports to boost its economy, they noted. The government thus considers promotion of domestic demand through personal consumption expenditures and corporate plant and equipment investment imperative in fiscal 1985, they said.

The government will thus take measures to fully "utilize" the vitality of the private sector, said the officials.

The government considers it necessary to redouble its efforts to open the domestic market to foreign imports, a policy which the officials said Japan began this year not only in merchandise trade but also in services and the financial and capital markets.

Japan is expected to continue to post a large balance of payments profit on the current account next year, inevitably inviting foreign criticism, they pointed out.

The government is expected to prepare a new market-opening package around next March, with state Minister Toshio Komoto, chairman of a newly created cabinet council on external economic relations, taking the initiative, they said.

Meanwhile, government sources said, the government will begin in fiscal 1985 to study drastic tax reforms, including an income tax cut and an indirect tax increase, to raise funds for financial reconstruction and business-stimulating measures. Fiscal spending can no longer play an important role in stimulating business activity, and the "utilization" of private sector vitality will take a long time before it has a tangible effect, the sources pointed out.

CSO: 4100/140

ECONOMIC

LABOR ORGANIZATION HITS RECORD POSTWAR LOW

OW291153 Tokyo KYODO in English 1006 GMT 29 Dec 84

[Text] Tokyo, 29 Dec, KYODO--Japan's rate of labor organization in 1984 fell for the ninth consecutive year to a record postwar low, the Labor Ministry said Saturday.

The decline in the social influence of labor organizations was blamed chiefly on their failure to organize the rising number of services industry and part-time workers, who the ministry said have been left behind in labor activities.

The percentage of union members among employed people, which went below 30 percent for the first time last year, fell by another 0.6 percent this year to 29.1 percent.

The labor organization rate hit a peak of 55.8 percent in 1949.

According to a ministry survey last June, there were 74,579 labor unions throughout Japan, up 0.1 percent or 93 unions over the year before.

However, there were only 12.5 million union members, down 0.4 percent of 56,000.

The nation's total work force increased by some 730,000 this year, mainly in retail-wholesale and other services sectors, to 42.82 million people, said the ministry.

The organization level was highest among public servants--78.4 percent, and lowest among workers in the retail-wholesale business--9.3 percent, the report said.

Figures also fell from last year in the manufacturing, financial and insurance businesses.

Men accounted for 72.4 percent of organized labor. Of the total unionized labor, 72.7 percent were in the private sector. Unionists dropped in number in the public sector by 42,000 to 3,399,000, reflecting government administrative and fiscal reforms.

CSO: 4100/140

ECONOMIC

SONY TO BEGIN DOMESTIC MARKETING OF 8-MM VTR

OW080843 Tokyo KYODO in English 0824 GMT 8 Jan 85

[Text] Tokyo, 8 Jan, KYODO--Sony Corp said Tuesday it will begin domestic marketing of its first 8-mm videotape recorder later this month as the first Japanese home electric appliance market to start sales of the new compact VTR at home.

The video 8 model, a one-piece set with both recording and on-the-spot playback capabilities, will sell for 280,000 yen (\$1,120), starting 21 January.

Weighing only 1.97 kilograms, the handy VTR is an epoch-making product for Sony and based on the common VTR format finalized last April by the 8-mm VTR format standardization committee, Sony officials said.

The company initially plans to manufacture 20,000 units a month and aims to raise the monthly output to 30,000 units by next summer, the officials said.

Sony has no plan to market the new 8-mm VTR overseas at present, they said.

Sony will continue technological development of its half-inch Beta-format VTR series, the officials also said.

Sales of Sonys Beta series VTR's fell 6 percent from a year ago last September for the first yearly decline since the company started sales in 1975.

The sales slump in the half-inch videotape recorder market has prompted Sony to announce the new 8-mm VTR for a more diversified product line, industry sources said.

CSO: 4100/140

ECONOMIC

DISC MANUFACTURERS SURPRISED AT ITC DECISION

OW231041 Tokyo KYODO in English 0936 GMT 23 Jan 85

[Text] Tokyo, 23 Jan (KYODO)--Mitsubishi Electric Corp, Sony Corp and Teac Corp Wednesday expressed surprise over a decision of the U.S. International Trade Commission (ITC) to start investigations following filing of a floppy disc patent infringement suit by Tandon Corp of California.

A Mitsubishi spokesman told KYODO NEWS: "We put on sale the 8-inch disc in 1973 and the 5.25-inch disc in the United States three years ago, all of which we developed on our own. We believe that our products do not violate Tandon's patent."

Tandon claimed the devices produced and sold by the three Japanese manufacturers damaged the American company in violation of the patent right and asked for a ban on the import and sales of the products in the U.S. market.

Acting on the U.S. company's charge, the U.S. ITC decided to begin investigations Tuesday.

A Sony spokesman said, "We plan to market the 3.5-inch type in the U.S. market in the near future but no U.S. maker is now manufacturing a similar disc. We will make detailed study on the issue after ITC documents reach us."

A spokesman for Teac declined to comment on press reports, saying, "Our lawyers in the U.S. are responsible for investigations into the matter."

Teac is selling mainly the 5.25-inch disc in the U.S. market the spokesman said.

CSO: 4100/165

ECONOMIC

INDUSTRY ANNOUNCES HIGHER 1985 ETHYLENE OUTPUT

OW240503 Tokyo KYODO in English 0452 GMT 24 Jan 85

[Text] Tokyo, 24 (KYODO)--Japan's ethylene production in 1984 topped the four million-ton mark for the first time in four years, the second best in history, the Japan Petrochemical Industry Association said Thursday.

According to the association, Japan's 12 ethylene makers produced a total of 4,383,000 tons of ethylene, up 19 percent over a year earlier--the second highest in history after 4.7 million tons in 1979.

Association officials attributed the booming output to a favorable domestic demand for ethylene derivatives such as polyethylene, as well as to growing exports to Southeast Asia.

But the industry cannot be complacent about its prospects for this year as a giant Saudi Arabian petrochemical project will start turning out less-expensive petrochemical products from late this year to market them in the world, the officials said.

They said domestic demand will grow at an annual rate of 4-5 percent.

CSO: 4100/165

ECONOMIC

MITI ANNOUNCES PANAM AEROENGINE ORDER

OW240029 Tokyo KYODO in English 0006 GMT 24 Jan 85

[Text] Tokyo, 24 Jan (KYODO)--Pan American World Airways, Inc. (Pan Am) has ordered 38 "V2500" aeroengines, now being developed by a five-nation consortium including Japan, the Ministry of International Trade and Industry announced Wednesday.

The engines, MITI officials said, will be mounted on 16 "A320" airbuses which Pan Am has ordered from Airbus Industrie. The airbuses are expected to begin commercial flights early in 1989, they added.

Two other airlines, which have ordered A320 airbuses, including Cyprus Airways, may also order the engines following Pan Am's lead, the officials said.

MITI refused to reveal the value of the engines ordered by the U.S. airline. Industry sources said, however, the value is estimated at about 30 billion yen (117.6 million dollars).

The project to develop the V2500 engines, designed to power next-generation civilian airliners of the 150-seat class, was originally started as a joint venture of three Japanese companies--Ishikawajima-Harima Heavy Industries, Kawasaki Heavy Industries and Mitsubishi Heavy Industries--and Rolls-Royce of Britain in 1980.

Pratt and Whitney of the United States, Messerschmitt of West Germany and Fiat Aviazione joined it in 1983, making it a five-nation joint venture.

The consortium plans to obtain type certification for the engine in April 1988, according to MITI officials.

The three Japanese companies have a 23 percent interest in the five-nation project, undertaking development of fans, compressors and other parts of the engines. They can expect annual sales of nearly 50 billion yen (196 million dollars) from the project, the officials said.

The consortium won the Pan Am order after fierce competition with General Electric Corp of the United States and Snecma of France, they added.

CSO: 4100/165

ECONOMIC

MITI TO PROMOTE SUPER-LIGHT-WEIGHT PLANE

OW241344 Tokyo KYODO in English 1243 GMT 24 Jan 85

[Text] Tokyo, 24 Jan (KYODO)--The Ministry of International Trade and Industry (MITI) plans to promote development of a new generation super light weight, high efficiency civilian passenger aircraft to make its first flight by the late 1990's, ministry sources said Thursday.

They said the ministry will ask the Aircraft and Machinery Manufacturing Council, an advisory body to the ministry, Friday to study ways to promote the idea and report back by the end of August.

MITI hopes to start drawing up concrete plans next year, the sources said, with a 100-seat short-distance passenger aircraft dubbed the "Commuter" the most likely contender.

This would be a twin-engined airplane, extremely lightweight and incorporating the most advanced technology, completely different in structure from existing aircraft, the sources said.

It would make ample use of composite materials, such as fiberglass-reinforced plastic for the body, and be fitted with advanced turboprop engines to be newly developed, and an optical fiber-based electronic control system replacing traditional hydraulic controls.

MITI estimates demand for aircraft of this class for domestic use within this century will be about 2,000, ministry sources said, representing a promising market.

The Society of Japan Aerospace Companies set up a committee late last year to study developing the Commuter. The U.S. National Aeronautics and Space Administration (NASA) has already embarked on a program of new aircraft development and jet engine maker Pratt and Whitney reportedly plans to start trials on a new advanced turboprop engine in 1987.

Sources say MITI's decision to back development of a new generation airliner stems from concern that Japan may be left behind in the race to develop increasingly advanced aeronautic technology.

They said the plan will aim to get a new type of aircraft "off the ground," following existing plans for development of a new civilian airliner, the YXX, and a new jet engine, the V2500.

But because of the enormous development costs involved--estimated at some 300-400 billion yen (1.2-1.6 billion dollars)--MITI is also considering a joint development project with U.S. and European aircraft industry specialists, the sources said.

CSO 4100/165

ECONOMIC

MITI TO ALLOW CONDITIONAL GASOLINE IMPORTS

OW221317 Tokyo KYODO in English 1233 GMT 22 Jan 85

[Text] Tokyo, 22 Jan (KYODO)--In the wake of a controversy over a lone entrepreneur's efforts to import gasoline, the Ministry of International Trade and Industry (MITI) Tuesday indicated it will change its policy to allow gasoline imports under certain conditions.

Ministry officials said a special subcommittee of the Petroleum Council, an advisory body to the ministry, will be set up next month to study appropriate timing and conditions for such imports, and the effect they would have on Japan's floundering refining industry.

The subcommittee would be asked to present its report by April, officials said.

Gasoline imports, though officially liberalized, have been discouraged by MITI under a policy aimed at helping Japan's domestic oil refineries.

This policy was recently challenged by an independent businessman, Taiji Sato, president of Lions Petroleum Co, who imported 3,000 kiloliters of Singaporean gasoline, but was forced to sell it on the wharf when his Japanese financiers cut off the credit he needed to pay import duties.

Sato claimed the finance company was acting under pressure from Nippon Oil Co and the Petroleum Association of Japan. He said he sold the gasoline to Nippon Oil at a loss of about 6 million yen (24,000 dollars), but was determined to import more foreign gasoline, next time with foreign financial backing.

According to MITI sources Tuesday, MITI has been under pressure from other groups within the industry, particularly oil wholesalers, to allow gasoline imports, as well as from consumers anxious to buy lower-priced gasoline.

Another factor influencing the decision was expected pressure on Japan to import refined petroleum products from Saudi Arabia and other countries which now have an established refining capacity, the sources said.

The Petroleum Council last year recommended gradual liberalization of refined oil products, but so far this has extended only to naphtha and residual fuel oil, with gasoline still subject to medium- and long-term study.

MITI officials said the ministry would consider allowing gasoline imports on a notification basis, depending on the new sub-committee's report, and also making some amendments to the oil industry law.

But they said gasoline imports would still be subject to strict conditions, to minimize disruption to the domestic refining industry.

CSO: 4100/159

ECONOMIC

INCREASE IN STEEL IMPORTS WORRIES INDUSTRY

OW301055 Tokyo KYODO in English 1040 GMT 30 Dec 84

[Text] Tokyo, 30 Dec, KYODO--Japan's imports of ordinary steel increased 42 percent this year to 3.7 million tons, giving fresh concern to the country's steel industry circles already hit by a slowdown in the domestic market.

This is the fourth straight annual increase in Japan's imports, industry sources said Sunday.

They said this is a major blow to the Japanese industry which has already agreed to cut back steel exports to the United States as part of its "self-imposed" regulations.

The sources said Japan's imports of ordinary steel, which recorded 700,000 tons in 1980, rose to 1.35 million tons in 1981, 1.89 million tons in 1982 and 2.61 million tons last year.

And now it is expected to reach 3.7 million tons this year, according to the sources.

While South Korea's share in Japan's ordinary steel market has been declining over the years, Romania and Bulgaria have been expanding their exports up to 30 times over the past several years, the sources said.

Prices of imported ordinary steel are almost 40 percent cheaper than comparable [word indistinct] product, according to the sources.

They said the quality of the imported products has also been improving.

The Japanese steel industry is worried the growing imports of ordinary steel may further hurt the domestic market.

With some steel company officials getting suspicious that exporting countries are dumping steel, Hiroshi Saito, vice president of Nippon Steel Corp, said Japan should enact legislation to counter dumping by other countries.

CSO: 4100/140

ECONOMIC

BRIEFS

NOTES ON \$1.96 MILLION GRANT--Tokyo, 16 Jan, KYODO--Japan will extend a 500 million yen (\$1.96 million) grant to China to help it increase food output, the Foreign Ministry announced Wednesday. The two countries exchanged notes to this effect in Beijing the same day, the ministry said. China, promoting agriculture modernization for stable food supplies and achieving self-sufficiency in major grains, has asked Japan to provide financial aid, it said. The Chinese Government will use the grant for buying agricultural machines, fertilizers and agricultural chemicals necessary for increased rice production in Liaoning Province and Ningxia Hui autonomous region, it added. [Text] [Tokyo KYODO in English 0537 GMT 16 Jan 85 OW]

SRI LANKA FINANCIAL AID--Tokyo, 11 Jan, KYODO--Japan, Friday agreed to provide 18.77 billion yen (\$74 million) in credit and grant aid to Sri Lanka. The soft credit line of 15.37 billion yen (\$61 million) will be used to finance telephone network and port construction projects and commodity imports. This has brought the balance of Japan's yen credits to that country to 122.8 billion yen (\$483 million). The 3.4 billion yen (\$13 million) grants will be used to finance purchases of equipment and materials for a communications training center expansion program and construction of a water supply system in Colombo and a teachers' school building in Matara. [Text] [Tokyo KYODO in English 0731 GMT 11 Jan 85 OW]

VTR ASSEMBLY IN PRC--Osaka, 9 Jan, KYODO--Matsushita Electric Industrial Co said Wednesday it will start full-fledged assembly of videotape recorders for home use in China, with major components sent from Japan. An agreement about necessary production facilities and technical assistance is expected to be signed at the end of January, company officials said. The officials said some 30,000 units will be produced annually for the time being. Matsushita has been

test-manufacturing home-use VTR's in the order of several hundred units a year since last year under a technical assistance agreement. China recently asked for expansion of the production to meet the growing demand for VTR's among its people, they said. [Text] [Tokyo KYODO in English 1027 GMT 9 Jan 85 OW]

PRC COMPUTER TRAINEES--Tokyo, 10 Jan, KYODO--A group of 22 Chinese computer trainees, including four women, arrived here Thursday for 1-year training in programming. The trainees, ranging from 22 to 38 in age, will be distributed to 10 software firms in Japan for the training lasting until next January. They have been invited for the training by an information service industrial association formed by private business firms as part of a software exchange program with China. [Text] [Tokyo KYODO in English 0904 GMT 10 Jan 85 OW]

TV PLANT FOR PRC--Osaka, 10 Jan, KYODO--Sanyo Electric Co has clinched a 7.8 billion yen (\$30.7 million) color television plant and kit export deal with China, the company said Thursday. The contract, concluded with the China National Technical Import Corporation through Toyoda Tsusho Kaisha, Ltd, calls for supplying two sets of color TV assembling equipment and color TV kits for 103,000 sets to two Chongqing factories. It also provides for furnishing flyback transformer, tuner and focus resistor assembling equipment and 500,000 kits to two other Chongqing factories. Sanyo has extended technical aid to a Beijing color TV factory. The company is also assembling color TV sets at Shenzhen in Guangdong province on a joint-venture basis. [Text] [Tokyo KYODO in English 0931 GMT 10 Jan 85 OW]

PRC SALESLERK TRAINEES--Tokyo, 10 Jan, KYODO--Tobu Department Store said Thursday it would train 36 Chinese sales clerks over the next 2 years under a friendship agreement reached the same day with Beijing Friendship Commercial Service Corp. administering food and beverage services in the Chinese capital. The agreement stemmed from mail-order sales of Chinese goods by the Japanese department store based in Tokyo, a spokesman said. He said the first group of six Chinese trainees would arrive Friday to receive a wide range of training, including manners toward customers and commodity control by assigning them directly in the department store over the next 4 months. [Text] [Tokyo KYODO in English 0932 GMT 10 Jan 85 OW]

HIGH-TECH COOPERATION AGREEMENT--Osaka, 10 Jan, KYODO--Japanese industrialists in western Japan and Swiss counterparts agreed Thursday to cooperate in the development of high technologies in such sectors as electronics and biotechnology. The agreement came at the end of the second meeting between the Kansai Economic Federation (Kankeiren) and the Swiss Federation of Commerce and Industry at the former's headquarters in Osaka, Japan's second largest industrial city. They also agreed to maintain the free trade system and promote cooperation in the Pacific region. The Swiss industrialists also expressed the hope that Japan would open its financial and capital markets wider since Switzerland hopes to branch out in Japan in the fields of investment consulting and trust business. They said that the Swiss financial and capital markets are open completely to foreign countries. The next meeting will be held in June in Switzerland. [Text] [Tokyo KYODO in English 1142 GMT 10 Jan 85 OW]

ISUZU NEGOTIATION PRC TRUCK DEAL--Tokyo, 24 Jan (KYODO)--Isuzu Motors Ltd is negotiating with China on a 50 billion yen (196 million dollars) worth of smaller truck export and transfer of truck manufacturing technology, an Isuzu spokesman said Thursday. Isuzu wants to export 30,000-40,000 smaller trucks and transfer truck production technology under an agreement to be signed soon, the spokesman said. The trucks will be distributed through the China Automotive Import and Export Corporation, and the technology will be provided to a Beijing automobile plant and some other firms, he said. [Text] [Tokyo KYODO in English 0433 GMT 24 Jan 85 OW]

BIOTECH VENTURE WITH PRC--Tokyo, 21 Jan (KYODO)--Promega Corp, a leading U.S. biotechnology company, has agreed with the China International Trust and Investment Corp and another Chinese partner and Sinogenetik of Canada to establish a biotechnology joint venture in China, it was announced here Monday. The new company, to be capitalized at about 1 million dollars, will start production of biochemicals and reagents used in genetic engineering molecular biological research at a plant in Zhengzhou City, Henan Province, within one year with technical cooperation of the Wisconsin-based U.S. firm. It will be the first biotechnology joint venture in China, a press release said. [Text] [Tokyo KYODO in English 1219 GMT 21 Jan 84 OW]

PETROCHEMICAL TALKS WITH PRC--Tokyo, 19 Jan (KYODO)--The Ministry of International Trade and Industry said Saturday it will send a high-ranking official to China next week to study ways to enhance Japan's cooperation in the Chinese petrochemical industry. During his January 21-26 visit, Toshihiko Hotta, councillor at the Basic Industries Bureau, will meet with Chen Jinhua, general manager of the China National Petrochemical Corporation, and other officials to hear briefings on petrochemical projects China plans to promote with Japan's cooperation. At present, MITI officials said, China hopes to construct plastic resin molding and processing plants with Japanese cooperation. [Text] [Tokyo KYODO in English 0720 GMT 19 Jan 85 OW]

SEMICONDUCTOR CHIP PROTECTION BILL--Tokyo, 22 Jan (KYODO)--The government will submit a bill for legal protection of semiconductor chip layouts to the Diet in mid-March, Ministry of International Trade and Industry officials said Tuesday. The officials said that the new legislation, to be drafted on recommendations just made by an advisory panel, will resemble a similar law enacted in the U.S. last October. They said the bill will grant the developer of chip layouts an exclusive right, close to patent rights, and protect it for a period of 10 years. It will also empower the developer to claim damages or seek court injunctions against those who have infringed on his or her right, they said. Other details such as the stage at which the 10-year protection should start and whether criminal charges should be leveled against violators remain to be fixed, the officials added. The advisory panel recommended that Japan and the United States, which together account for 90 percent of the world's semiconductor chips, should join hands in urging the World Intellectual Property Organization (WIPO) to establish new international rules for protection of chip layouts. [Text] [Tokyo KYODO in English 1001 GMT 22 Jan 85 OW]

TAX REFORM NEED REAFFIRMED--Tokyo, 23 Jan (KYODO)--Finance Minister Noboru Takeshita Wednesday reiterated the need for a sweeping reform of the present tax system to help rehabilitate the nation's tattered finances. Speaking at the start of a two-day meeting of regional finance bureau chiefs, Takeshita also described the current state of the economy as being in a smooth expansionary phase bolstered by favorable domestic demand. He said the economy will grow steadily in light of stable consumer prices, amelioration of corporate profit performance and the world economic recovery. The representatives from the country's 11 regions then reported their respective economic activities. [Text] [Tokyo KYODO in English 0121 GMT 23 Jan 85 OW]

NISSAN CAR PRODUCTION IN U.S.--Tokyo, 22 Ja (KYODO)--Nissan Motor Co's first U.S.-built subcompact will roll off the assembly line at its plant in Smyrna, Tennessee, on March 26, the head of its American affiliate said here Tuesday. Marvin T. Runyon, president of Nissan Motor Manufacturing Corp (U.S.), told newsmen that the annual output of the car of the Sentra model (Sunny in Japan) at the U.S. plant will reach 100,000 units within three years. He said an all-out effort would be made to produce the best quality car in the U.S., as it is doing in production of pickup trucks at the Smyrna plant that started in June, 1983. Runyon expressed his opposition to the extension of Japan's self restraint on car exports to the U.S. beyond March when the current quota agreement expires. The self-restraint, which he termed unnecessary from the start, should be abolished, he said. He said that a slowdown in U.S. passenger car sales was not caused by exports of Japanese cars to the U.S., but by the slumping U.S. economy. The self-restraint restricts competition, resulting in higher car prices in the United States, he said. [Text] [Tokyo KYODO in English 0818 GMT 22 Jan 85 OW]

TOSHIBA FUEL CELL POWER PLANTS--Tokyo, 22 Jan (KYODO)--Toshiba Corp and America's United Technology Corp (UTC) have agreed to set up a joint company in South Windsor, Connecticut, late in February to develop, build and market phosphoric acid fuel cell power plants, a Toshiba official said Tuesday. The official said Toshiba, known for its electric power system engineering technology, and UTC, reputed to be the world's most advanced in fuel cell technology, are going to combine to develop 11,000-kilowatt capacity fuel cell power plants. Fuel cell, a chemical device designed to store and produce electrical energy directly by reaction of two fuel substances, for instance, hydrogen and oxygen, is drawing international attention as an ace energy supply source. According to the Toshiba official, the joint company, International Fuel Cells (IFC), will be capitalized at 8 million dollars, which will be equally provided by the partners. Toshiba's Haruo Kawahara will be the president of the new company, and William H. Podolny, UTC's power system division vice president, chairman, he said. [Excerpt] [Tokyo KYODO in English 0822 GMT 22 Jan 85 OW]

STEEL EXPORTS--Tokyo, 21 Jan (KYODO)--Japan's steel exports last year totaled 32.5 million metric tons, up 1.5 percent from the previous year, according to the Japan Iron and Steel Federation Monday. The value was given as 14.27 billion dollars, up 7.4 percent. Shipments to China registered a 15.9 percent year-to-year increase to 8.4 million tons and those to the United States, up 34.5 percent to 6.2 million tons, while exports to South Asian countries

suffered an 8.2 percent decline to 8.9 million tons with those to the Middle East down 38 percent to 3.15 million tons, the federation said. Meanwhile, imports of ordinary steel jumped 39 percent to 3.63 million tons for the fourth straight yearly rise, it said. [Text] [Tokyo KYODO in English 1101 GMT 21 Jan 85 OW]

NTT OPTICAL FIBER LINE--Tokyo, 21 Jan (KYODO)--The Nippon Telegraph and Telephone Public Corporation (NTT) will start operation of a new nationwide optical fiber communication trunk line running from the north through the south of Japan in the middle of next month, NTT officials said Monday. The 3,300-kilometer link linking Asahikawa, Hokkaido, and Kagoshima, Kyushu will be completed by the end of this month under a two-year project to replace the conventional trunk cable line. The Tokyo-Osaka line has the most advanced cable called F400m, which enables 5,760 persons to make calls at one time in a set of optical fiber. NTT will install "branch" lines in other parts of the country in the future, the officials said. [Text] [Tokyo KYODO in English 0258 GMT 21 Jan 85 OW]

AID TO UNDERDEVELOPED EMPHASIS SHIFTED--Tokyo, 20 (KYODO)--Japan is shifting emphasis from quantitative to qualitative increases in official development assistance to poor countries, officials said Sunday. In a shift in policy, the government is planning to increase grant elements, including financial and technical cooperation, rather than total value, they said. Saddled with the heavy burden of budget deficits, Japan finds little choice but to back away from its long-standing policy of doubling assistance in total value every five years. The Finance Ministry is giving finishing touches on a new five-year assistance program, beginning next year, the basis for Japan's new pledge to be made at an organization for economic cooperation and development ministerial meeting in Paris in mid-April. A broad outline of the new plan is to be worked out by the end of this month. Although money earmarked for development assistance for fiscal 1985, beginning April, shows a 10 percent increase over the current year, Japan will be slightly off the target for 1981-85. [Text] [Tokyo KYODO in English 0607 GMT 20 Jan 85 OW]

INCREASED FISH QUOTA--Tokyo, 19 Jan (KYODO)--The United States has decided to raise the initial 1985 Japanese fish catch quota in its 200-mile zone by 4,500 tons, the Fisheries Agency disclosed Saturday. The agency has received a U.S. notification to the effect that Japanese fishermen can now catch 4,500 tons of Pacific cod in the Gulf of Alaska. This raises the initial 1985 Japanese fish quota in the 200-mile U.S. economic zone to 171,700 tons. Early this month, the U.S. Government announced a decision to allow Japan to catch 167,200 tons of fish in the Bering and Aleutian waters initially this year, down sharply from last year's initial quota of 486,000 tons. Agency officials said the U.S. Government has decided to increase the Japanese quota in appreciation of Japan's effort to expand marine products. The officials said the U.S. Government is expected to further expand the initial quota next month. [Text] [Tokyo KYODO in English 0537 GMT 21 Jan 85 OW]

MOTORCYCLES TO PRC--Tokyo, 19 Jan (KYODO)--Honda Motor Co said Saturday it is studying a Chinese request for technical help in establishing a second motorcycle plant in Chongqing City, Sichuan Province. A spokesman for Honda, the world's largest motorcycle maker, said the company is considering doubling its exports of motorcycles to China to 350,000 units this year, which would give China 16.7 percent of Honda's total exports. China Jialing machine factory in Chongqing has been assembling super-cab business bikes with an engine capacity of 50 to 70 cc under an agreement signed in 1982. Honda anticipates exports of 2.1 million units of motorcycles this year, with the largest share, 410,000 units going to the U.S. [Text] [Tokyo KYODO in English 0313 GMT 19 Jan 85 OW]

BOILER DEAL WITH IRAN--Tehran, 20 Jan (KYODO)--Ishikawajima-Harima Heavy Industries Co (IHI) and Sumitomo Corp have signed a contract with Iranian state-run heavy machinery firm to install boilers at a thermoelectric power plant being constructed some 150 kilometers west of Tehran, IHI officials said Sunday. According to the officials, the 22 billion-yen (87 million dollars) deal with Machinsazi Arak calls for IHI to supply four boilers and provide technical assistance for Rajai power plant, which is Iran's largest-scale plant since the Iranian revolution in 1979, with eventual generating capacity of 2 million kilowatts. [Text] [Tokyo KYODO in English 0043 GMT 20 Jan 85 OW]

ASEAN GOOD-WILL BUSINESS TOUR--Tokyo, 21 JAN (KYODO)--A 30-member group of top Japanese business leaders left Tokyo Monday for Kuala Lumpur on an 11-day goodwill tour of Malaysia, Indonesia and Singapore. The group is the first to be sent to member countries of the Association of Southeast Asian Nations (ASEAN) by the Federation of Economic Organizations (Keidanren), headed by Keidanren chairman Yoshihiro Inayama. The mission includes Keidanren vice presidents--Gaishi Hiraiwa, chairman of the Tokyo Electric Power Co, Eishiro Saito, chairman of Nippon Steel, and Norishige Hasegawa, chairman of Sumitomo Chemical Co--and representatives from trading, auto, electric and other industries. The same group is expected to visit the Philippines and Thailand February 11-16. ASEAN is Japan's second largest trading partner after the United States and Japan is the largest market for ASEAN. [Text] [Tokyo KYODO in English 0323 GMT 21 Jan 85 OW]

MONETARY POLICY, PROSPECTS--Tokyo, 22 Jan (KYODO)--Satoshi Sumita, governor of the Bank of Japan, Tuesday reiterated the policy of intervening in foreign exchange markets wherever necessary to prevent an excessive appreciation of the U.S. dollar against the yen. He said the dollar's uptrend against other major currencies is liable to push domestic prices higher and widen Japan's trade and payments surpluses. Sumita made the policy clear in the opening session of a two-day conference of Bank of Japan branch managers. The governor said that at the latest five major countries' (G5) finance ministers conference earlier in the month, participants expressed strong apprehension over the dollar's continued gains, and reaffirmed their agreement on concerted intervention in foreign exchange markets. On economic prospects, he said there would probably be no major change in the current expansionary keynote of Japanese economic activity, since business capital spending and consumer spending have gained strength. Depending on American economic activity, Japan's exports will inevitably be affected to some extent, he said. [Text] [Tokyo KYODO in English 0411 GMT 22 Jan 85 OW]

TECHNOLOGY EXPORT TO LIAONING--Tokyo, 7 Jan, KYODO--Hitachi Construction Machinery Co said Monday it would offer techniques to China for making cranes and pile drivers to modernize a Chinese plant in Fushin, Liaoning Province. A company official said the agreement calls for training of Chinese engineers, sending of Japanese experts to China and supply of component parts to the plant now under the control of the Chinese Ministry of Urban and Rural Construction and Environmental Protection. The deal was negotiated through China National Machinery Import and Export Corp. Initial production is targeted at some 300,000 units in this fiscal year starting in April, valued at some 1.5 billion yen (\$5.9 million) for such equipment already used widely at China's first sophisticated integrated steelworks at Baoshan in the suburb of Shanghai. The equipment will be used for buildings, dams and civil engineering works, he added. [Text] [Tokyo KYODO in English 1042 GMT 7 Jan 85 OW]

GAS PLANTS IN PRC--Tokyo, 27 Dec, KYODO--China has ordered three liquefied petroleum gas (LPG) and one natural gas liquid (NGL) plant worth 2.5 billion yen (\$10 million) from JGC Corp and Marubeni Corp, the Japanese companies jointly announced Thursday. The announcement said that the NGL plant and one LPG plant would be built in an oilfield in Liaoning Province and two LPG plants in an oilfield in Shandong Province. The NGL plant will be delivered in 1987 and the LPG plants in 1986 to China National Technical Import Corp, it said. The agreement also calls for the Japanese firms to provide the Chinese with plant design, machinery procurement, supervise the plant construction and extend technical guidance, the announcement added. [Text] [Tokyo KYODO in English 0837 GMT 27 Dec 84 OW]

AID TO PAKISTAN--Tokyo, 27 Dec, KYODO--Japan will extend grants totaling 1.64 billion yen (\$6.5 million) to Pakistan for medical improvement and repairs to archeological ruins in the country, a government spokesman said Thursday. He said that the aid consists of 1.59 billion yen (\$6.3 million) for construction of a school in Islamabad to train nurses and medical engineers and 50 million yen (\$200,000) to repair and preserve Mohenjo-Daro, the remains in the Darkana District of Sind, Pakistan. The documents to this effect were exchanged between the governments of the two countries the same day, the spokesman added. [Text] [Tokyo KYODO in English 0722 GMT 27 Dec 84 OW]

GRANT AID TO THAILAND--Tokyo, 28 Dec, KYODO--Japan has extended a 219 million yen (about \$876,000) grant aid to Thailand to help the Bangkok government improve regional industrial safety and health, the Foreign Ministry said Friday. The two countries exchanged notes on the aid in Bangkok Thursday; the Japanese aid will be used for a Thai project to improve safety and health of workers in an effort to cope with the increasing number of industrial accidents and occupational diseases, the ministry's announcement said. "The activities based on the present project are taking place in Samudprakan Province, one of the major industrial districts of Thailand, with the cooperation of related provincial organizations and the national University of Mahidol," it said. The project is designed to give guidance on labor safety and hygiene in factories, give workers' medical examinations and conduct environmental assessment of factories, the announcement said. [Text] [Tokyo KYODO in English 0851 GMT 28 Dec 84 OW]

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